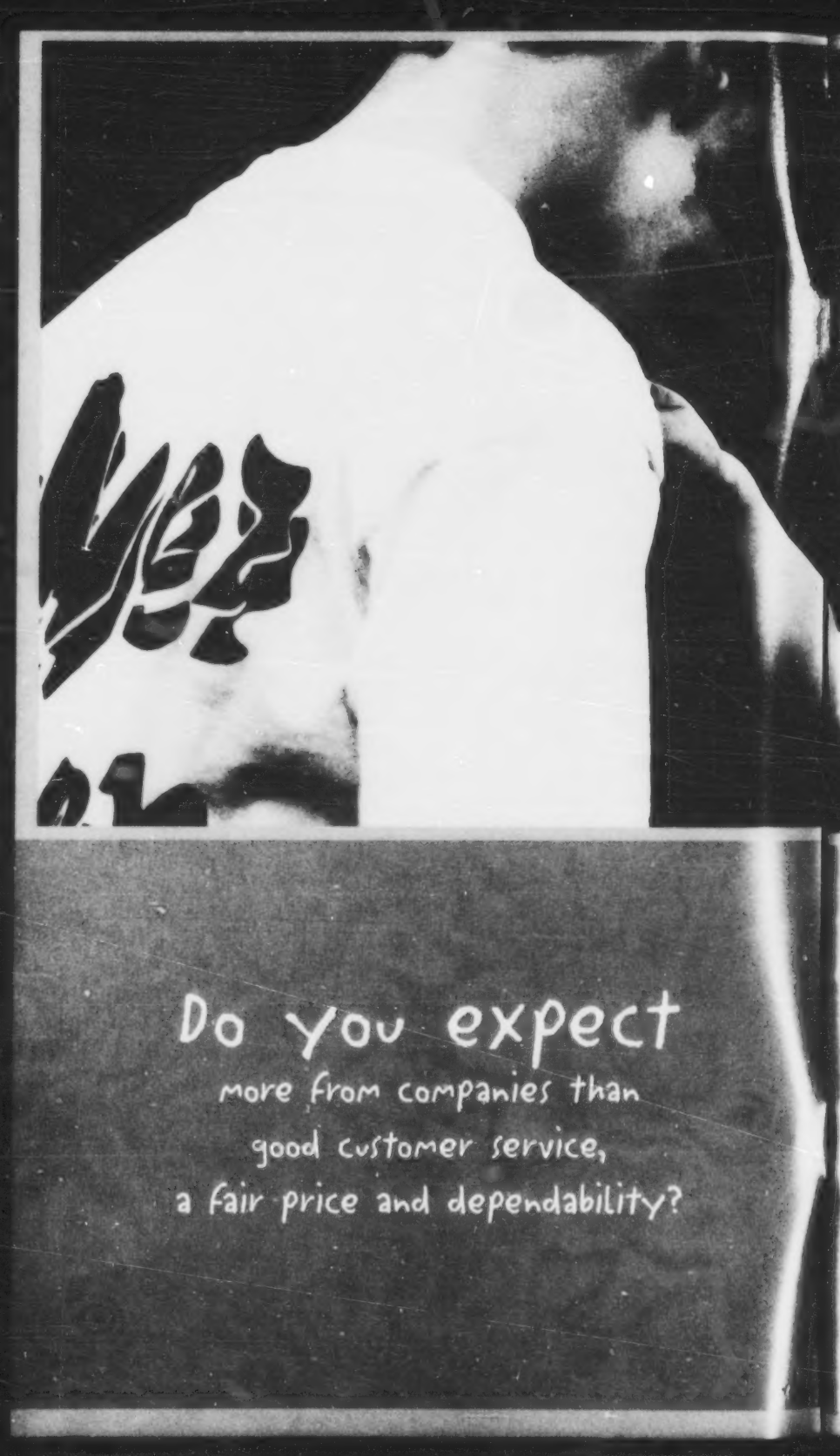
...LOOK

CLOSER

SaskEnergy

2003 Corporate Social Responsibility Report


Do you expect
more from companies than
good customer service,
a fair price and dependability?

Do you believe
they should exceed the standards of business
by helping improve the quality of
life in our communities?

If you answered "yes"
then you are not alone.

Millions of Canadians are redefining the term "business", creating a new and vibrant reality in this country.

It's a reality where...

53% of people think that an important differentiator for a company is social responsibility, far ahead of either brand reputation or financial success;

74% of Canadians discussed or thought of discussing ethical and social behaviour of companies; and

88% of people believe that business should do more than simply make a profit, create jobs and obey laws.

Of 23 countries polled, Canada has the highest expectations for businesses. Canadians from one corner of the country to the other believe corporations should be leaders in addressing social concerns*.

Business isn't just about business anymore.

Priorities are evolving.

Roles and responsibilities penned in Canadian companies now include a commitment to corporate social responsibility. Not just cheque cutting or in-kind donations, but something more extraordinary...inspirational education programs that stimulate the minds of young people, diversity initiatives that provide equality for everyone, and volunteer programs that encourage employees to share their time and hearts with the community.

SaskEnergy is one of these companies – a company that believes social integrity is a priority, and that a commitment to communities is the foundation of our business. Why? Because Saskatchewan is a great province, brewing with potential, filled with energetic and talented individuals, generosity, and warmth.

Saskatchewan is worth the investment.

Wouldn't you agree?

*Source for all facts: Environics Millennium Poll, 1999

DEFINING

CORPORATE SOCIAL RESPONSIBILITY

"In study after study, we find people are expecting a tremendous amount. There is a powerful inspirational agenda underlying it that says, 'Let's go for the world we want'."

- Doug Miller, president of Environics International Ltd.

There are many definitions of Corporate Social Responsibility. Each of them is unique.

A young family may ask what companies are doing to protect the environment that their children will someday inherit.

Aboriginal leaders in a northern First Nation community may believe social responsibility involves a partnership between business and education – to help bring hope to the lives of Aboriginal youth, and show them that they can succeed in life.

For disabled individuals, social responsibility may involve a shift in attitude – where businesses see these peoples' abilities, and provide them with tangible work opportunities.

Corporate Social Responsibility can be any of these. But it can also be much more.

For SaskEnergy, Corporate Social Responsibility is like an investment that grows over time, based on the contributions it receives. The more we nurture our relationships, the stronger our communities - and our company - will become.

When we embraced our commitment to Corporate Social Responsibility, we also understood that we must set goals and objectives that will help us continually improve ourselves as corporate citizens. That's why we're following some important criteria developed by the Conference Board of Canada and the Canadian Centre for Business in the Community.

These two organizations have developed pillars - or benchmarks - of Corporate Social Responsibility. The pillars that pertain to SaskEnergy's business are:

- Community Involvement
- Human Resources
- Corporate Practices and Standards
- Environmental Stewardship

This booklet explains how well we're doing in these areas, and how the values of Corporate Social Responsibility will be continually integrated into our business.

COMMUNITY INVOLVEMENT

CARING FOR SASKATCHEWAN

"I have volunteered my time for several projects this year and enjoyed every minute. Thank you to the company for giving us the opportunity to work with the community in trying to make this a better place to live. It always gives me a good feeling to do good."

- Sharlene Wasylenchuk, Customer Service Representative, Yorkton

Do you ever get a warm feeling when you help someone out...whether it's your neighbour who needs help shoveling the walk, a local little league ball team that's looking for a coach, or an elderly person who'd love some company? If so, then you know this is one of the most rewarding emotions.

We want to help foster this spirit in our province, by creating investment programs that not only focus on dollars, but also on the lives touched and the communities impacted. The people of Saskatchewan agree. According to customer research conducted last year, more than 81% of our customers said SaskEnergy should support charitable activities. More than 72% believe SaskEnergy is a good corporate citizen that's involved in the community.

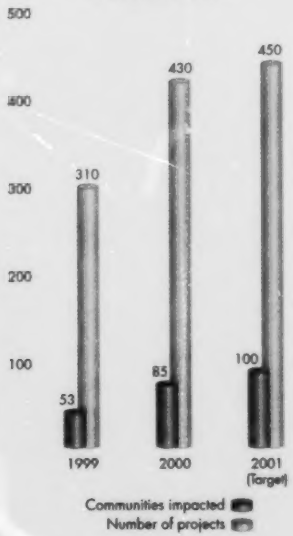
With this strong endorsement, we can go beyond making a commitment to do better.

SaskEnergy employee Al Corcoran and his daughter Marion bring a new meaning to "family" by helping others. Last year they donated their time and energy to rebuilding Vanguard, after the community experienced severe flooding.

Making community investment possible across Saskatchewan

From our philosophy of a brighter tomorrow grew our *Share the Warmth Fund*, a program that financially supports Saskatchewan projects in the categories of Education, Community Initiatives, and Saskatchewan Pride.

SaskEnergy's Community Investment in Saskatchewan



Some of the programs we've supported through our *Share the Warmth Fund* are: Summer Science Camps, which nurture a love of learning and spark interest in science and math; a 24-hour relay in Swift Current to raise funds for the Dr. Noble Irwin Healthcare Foundation; and the Don Allen Saskaloppet in LaRonge, a day of cross-country fun and challenge for anyone who skis.

What's particularly unique about the *Share the Warmth Fund* is that our employees from all over the province choose which projects or initiatives we should support – providing us a great opportunity to spread our corporate giving in communities large and small. Events in 85 different Saskatachewan communities were supported in 2000.

Besides the *Share the Warmth Fund*, we also extend our support through two other areas: a general sponsorship fund, and an Aboriginal sponsorship fund.

GET INVOLVED

If your organization would like to apply to the SaskEnergy *Share the Warmth Fund*, please submit your proposal in writing, by outlining the following:

- The project description, name and date(s)
- What fund category it falls into, and why (either Education, Community Initiatives, or Saskatchewan Pride)
- The individual or organization leading the project
- The number of people who benefit
- The dollar amount required in materials, services or sponsorship
- What recognition SaskEnergy will receive for this level of contribution
- Any other available levels of sponsorship
- Other event supporters
- Contact name(s) and addresses

PLEASE GIVE US AS MUCH ADVANCE NOTICE AS POSSIBLE

Send your written proposal to:
SaskEnergy *Share the Warmth Fund*
1100-1945 Hamilton Street
Regina, SK S4P 2C7
Or fax it to: (306) 352-4438

The *Share the Warmth Fund* generally supports community initiatives or projects with donations up to $2,500. If you have a project that does not fall under the *Share The Warmth* category, or a request for sponsorship that exceeds $2,500, please send your request to SaskEnergy Community Relations, 1100-1945 Hamilton Street, Regina, SK, S4P 2C7, or fax it to (306) 352-4438.

If you have any questions, please call (306) 777-9378 (collect).

Sharing our spirit

Besides supporting various activities across the province, the *Share the Warmth Fund* also addresses another important need expressed by our employees – to get more involved in our communities.

Our employees have always enjoyed volunteering, but the depth and breadth of their participation has grown immensely over the past couple of years, since the *Fund* was established. Now, all of our employees – rural and urban – have more opportunities to get involved in SaskEnergy-sponsored activities, such as Summerfest in Humboldt, the River Art Festival in North Battleford, and the Western Canadian Farm Progress Show in Regina. Our employees even initiate volunteer activities on their own. Last year, staff from Swift Current pitched in to help residents of Vanguard rebuild their community after suffering a major flood. A group from Saskatoon also organized a program to support a local youth centre, by regularly donating food and clothing – most anything the centre needs.

Each year, our volunteer commitment grows. This proves the Saskatchewan spirit is alive and well.

	1999	2000	2001 (Target)
Volunteer Hours among employees	3,618	4,229	4,500
Percentage of employees who volunteer	46%	44%	50%

Warming the heart and lending a hand

The largest component of our *Share the Warmth* program – and our company's biggest annual community relations activity – is our *Share the Warmth Sweater Recycling Project.*

Established in 1994, this project has helped our employees, partners (such as schools, businesses, community groups), and the generous people of Saskatchewan open their hearts and closets to less fortunate people – by donating clean and usable sweaters.

Over the past seven years, more than a quarter million pieces of clothing have been collected!

But the caring people of this province have done more, by offering scarves, toques, blankets, mittens, and even boots. In 2000, we responded to this new kind of community contribution with a unique and exhilarating focus. We asked people to donate their *Warm Fuzzies* - any piece of warm clothing for men, women, young people, even babies.

Last year, with the help of many community agencies, businesses, as well as 300 employees and their families, more than 72,000 *Warm Fuzzies* were collected.

Although the numbers are significant, our goal isn't focused entirely on collecting the most *Warm Fuzzies*. We want to mobilize and inspire communities from all over the province to get involved. We want them to feel passionate and excited about sharing their warmth with others.

So far, the numbers prove this approach works. For example, close to one in four Saskatchewan schools participated in this program last year.

Share the Warmth Recycling Project

	1999	2000	2001 (Target)
Communities	94	98	100
Partners	11	16	18

"We had great success with the campaign this year. By far we had more than last year. I think the blankets, toques, and mittens contributed to the success."
— Karri Sachkowski, Royal Bank, Shaunavon.

"Thank you for having a project like this for schools to participate in."
— Shari Martin, Davidson Elementary School.

"The Saskatchewan Junior Hockey League and the Melville Millionaires are very proud to be a part of this program...Truly the winners are the recipients of the program and the people of Saskatchewan."
— Lorna Quennelle, Program and League Promotions, Melville Millionaires.

"Knitting is one of my hobbies and this gives me great joy knowing someone will enjoy some added warmth during our long winters."
— Rita Worth, Rosetown.

The Canadian Centre for Philanthropy recommends that interested companies dedicate a minimum 1% of pre-tax profits to community and social initiatives each year. SaskEnergy has targeted 1.5% of its budgeted net profits.

	1999	2000
Total community relations investment	$881,389	$1,069,398
% of community relations investment of its budgeted net profits	1.8%	1.9%
Target	1.5%	1.5%

In December 2000, SaskEnergy and the United Way (one of our major partners in the *Share the Warmth Recycling Project*), received a notable honour. We were one of only five Canadian partnerships to receive the *New Spirit of Partnership Award* from the Canadian Centre for Philanthropy, for our 1999 *Sweater Recycling Project*! This award celebrates successful Corporate Social Responsibility alliances between Canadian businesses and charities that are making a difference in the community. We're proud of this honour. Thank you to the United Way, our many partners, and the people of Saskatchewan for sharing their warmth with others, and for making this award possible.

HUMAN RESOURCES

BUILDING A MORE INCLUSIVE TOMORROW

"SaskEnergy's commitment to diversity is one of the things that impresses me the most. The environment in this company embraces and celebrates all of our differences. I'm proud of that, and I'm proud to work for SaskEnergy."

- Carmella Fiore, Administrative Assistant, Regina

All of us would agree that regardless of our colour, gender, or abilities, we all have the right to succeed.

Not only does SaskEnergy recognize these rights, but we also want to ensure our workforce reflects the diversity that exists in Saskatchewan.

We're aiming for the perfect blend, and we're preparing for the future today.

It begins with a focus on three key areas:

1) A commitment to Saskatchewan youth
2) Partnerships which build a diverse workforce
3) A safe and healthy environment for our employees

A commitment to Saskatchewan youth

Self-esteem and a strong education are two of the most important ingredients young people need to succeed. SaskEnergy's *Scholarship Program* helps post-secondary students realize their potential. It also helps us develop Saskatchewan graduates in needed areas of our workforce, such as Engineering, Business Administration, Commerce, Computer Science and Trades.

In the 1999-2000 academic year, we offered 20 scholarships worth $100,000. The same amount is targeted for 2001.

We also want to help individuals who are committed to getting their education back on track, despite their difficult personal circumstances. Through a multi-year commitment to the Adult Learning Centre (ALC) in Regina - the only not-for-profit organization of its kind in Canada – we help young, at-risk adults gain the skills and experience they need to enter the workplace and become independent, self-supporting individuals.

The *Scholarship Program* and sponsorship of the ALC are just a couple examples of programs for Saskatchewan's young people. Last year, more than one-third of our community relations investments, valued at over $440,000, focused on Saskatchewan youth.

Partnerships with the Aboriginal community

According to a 1997 Federation of Saskatchewan Indian Nations study, by the year 2015, one in five Saskatchewan people will be Aboriginal. Instead of waiting until then to recruit Aboriginal candidates at SaskEnergy, we believe it's absolutely crucial for us to address this reality today – for the benefit of all Saskatchewan people.

That's why we've developed what we call **Our Strategies for Success.** These are our plans to help eliminate the economic and social gaps that exist between Aboriginal and non-Aboriginal people. This strategy focuses on the following:

EDUCATION AND TRAINING

"Contributing our fair share toward the advancement of education, skills development and cultural promotion at SaskEnergy and in Saskatchewan."

Our SaskEnergy *Scholarship Program* is one initiative that falls under this category. Besides being offered to students at our two Universities and the Saskatchewan Institute of Applied Science and Technology (SIAST), scholarships are also available to Aboriginal students from the Saskatchewan Indian Federated College (SIFC), Gabriel Dumont Institute of Applied Science and Research, Dumont Technical Institute, and the Saskatchewan Indian Institute of Technology (SIIT). Since this program was developed in 1998, more than 33 Aboriginal post-secondary students have been awarded scholarships.

Another unique education initiative for Aboriginal youth is *Super Saturday*.

Together with the University of Saskatchewan and the Saskatoon Tribal Council, we bring Aboriginal youth from First Nations communities

to the University of Saskatchewan to familiarize themselves with a university environment, and learn about a post-secondary education. We also invite students to our own facilities, where we not only explain future job opportunities, but also help these children experience what it's like to be a service technician, customer service representative, or an engineer – to name a few.

The majority of children who participate in *Super Saturday* have never been outside of their community, and have never seen a city, or a university. This program plants the seed of opportunity in these eager young minds, teaching them that they all have special gifts related to many disciplines.

Besides encouraging Aboriginal youth to pursue their education, we also recognize those students who excel in sports, academics, culture, recreation, community service, arts, and leadership. Through our continuous sponsorship of the *Wicihitowin Aboriginal Youth Awards of Excellence*, we partner with other agencies in the province to celebrate the outstanding achievements of these young people, and help them secure a sense of self-worth and involvement in the community.

Last year we sponsored the *SaskEnergy Community Service Award*, which was provided to Natasha Ray, a 17 year-old student from Sandy Bay. Natasha is actively involved in many community events, such as fundraising, organizing youth activities, and cooking meals for the elderly. She also promotes her culture by teaching others the values of respect, caring and sharing.

EMPLOYMENT

"Building a representative workforce, an open and accepting work environment, and equal access to career opportunities in our company and our province."

More than 13% of Saskatchewan's population is of Aboriginal origin. As of today, Aboriginal men and women are represented in 6.4% of SaskEnergy's workforce.

Our goal is to help these individuals apply their knowledge and skills in other areas of our business, by offering them internal opportunities for advancement – whether it be through secondments, or permanent placements.

Together with the Saskatoon Tribal Council, SaskEnergy is helping open the door to tangible employment

province. The SaskEnergy *Aboriginal Management Development Program (AMDP)*, initiated in 1995, meets the Aboriginal community's need for management opportunities within the public and private sector, by providing a one-year management development experience at SaskEnergy. Seventeen people have participated in this program since it began in 1994. Four have received permanent employment at SaskEnergy.

(The third component of our "Strategies for Success" – involving partnerships with Aboriginal businesses, will be discussed in the Supplier Development portion of this Report.)

Besides our commitment to Aboriginal people, we are also focused on ensuring disabled individuals have the employment opportunities they deserve. We've established employment outreach programs with such organizations as the Regina Open Door Society (RODS), and the South Saskatchewan Independent Living Centre (SSILC). Through these partnerships, both RODS and SSILC are principal contacts for their client groups, and will work with SaskEnergy to develop valuable work-term opportunities for disabled individuals throughout the province.

A safe and healthy environment for our employees

All employees need to feel motivated...that they impact the company, excel in their jobs, and work in a safe and rewarding environment. They also want to believe that the company cares about them.

Our goal is for SaskEnergy to be an employer of choice in Saskatchewan – offering support and encouragement in a healthy, rewarding and positive work environment.

We've doubled health and safety practices between 1997 and 1999, while our business plans instituted a commitment to the security and well-being of all our employees.

In 2000, we took our commitment one step further, by implementing a job observation program – which helps our employees identify and rectify unsafe work behaviours, and reinforce safe work behaviours.

We believe that safety practices will help us reduce our lost time and preventable incident frequency rates.

Whether our employees spend most of their time on a computer, helping our customers, or in the field in rural

Objectives	Measures	1999	2000	2001 (Target)
Employee Safety	Lost Time Frequency Rate (number of injuries per 200,000 hours worked)	1.03	2.23	0.0
Employee Safety	Preventable Vehicle Incident Frequency Rate (per 1,000,000 kms driven)	2.41	2.82	0.0

Saskatchewan – all of them should feel encouraged to reach their true learning potential. After all, learning is a part of life. It's not designated to one point in time, but a process that evolves over many years.

Through various training opportunities within and outside of the company, we support our employees in their quest for professional and personal development. Last year, more than 80% of our employees received training, through courses such as: Problem Solving and Decision-Making; Customer Service Excellence; Management and Leadership; as well as a number of computer courses.

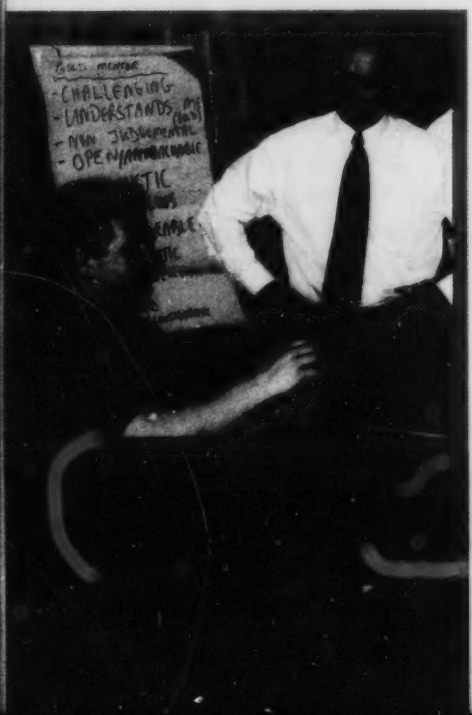
We also recognize the talent and skills of our employees by ensuring the majority of our career opportunities are filled internally. To us, this is an important component of "employee growth," helping these individuals - and our company - reach our true potential. Last year, more than 75% of available positions were filled by our employees. Based on our ongoing commitment to training and development, we are confident our employees will develop the skills needed for the future.

GET INVOLVED

If you're interested in career opportunities at SaskEnergy, please visit our website at www.saskenergy.com, or call our Human Resources department at (306) 777-9091.

Developing Leaders for Tomorrow

In 1998, SaskEnergy launched its first Leadership Development Program (LDP), which builds leaders within our company – individuals who can successfully navigate SaskEnergy in the future.

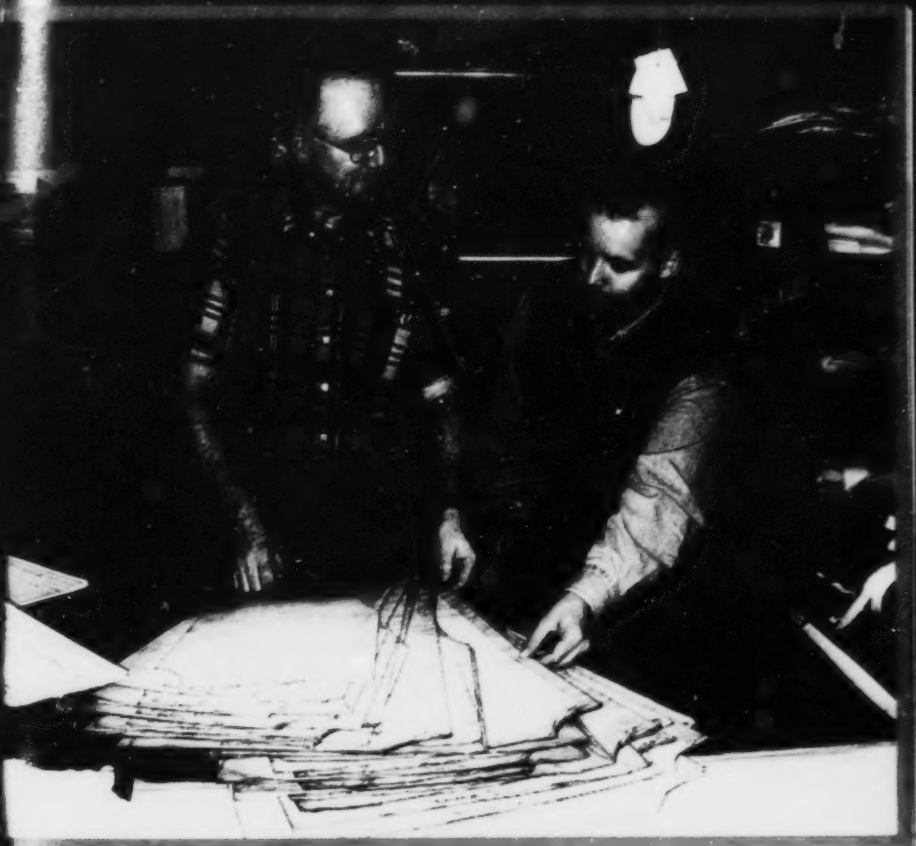


Besides providing an opportunity for employees to move up in all areas of the company, this 18-month program provides diversity participants more opportunities to reach their potential.

The first two LDP classes graduated in 2000, with participants saying, "LDP showed how we must be open and adaptable to change," and, "Thanks to LDP, the opportunity to lead people through change has become a very exciting responsibility."

CORPORATE PRACTICES & STANDARDS

WORKING WITH SASKATCHEWAN BUSINESSES

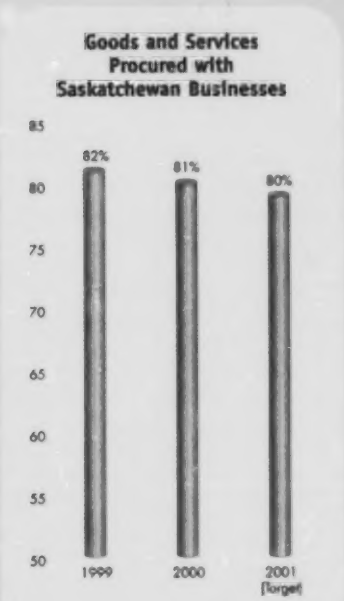


"MEE Sports has manufactured top quality sportswear and outerwear in Saskatchewan for over 14 years. With the support of customers like SaskEnergy, we are continuing to grow and develop new products for sale both in Saskatchewan and across North America."

— Peter Wills, Fashions by MEE LTD., Saskatoon

For almost half a century, SaskEnergy has provided natural gas to the people of Saskatchewan. We've also spent 45 years working alongside unique, dedicated and ambitious Saskatchewan businesses similarly connected to their customers and their communities.

To show our support for these entrepreneurs – and for Saskatchewan – we procure the majority of our goods and services with manufacturers, distributors and suppliers from across the province. Last year alone, more than 80% of our products were purchased right here, from companies that produce everything from corporate clothing to underground gas line markers.



Not only does this program help support these businesses, but it also helps strengthen our local and provincial economy – which in turn benefits everyone in Saskatchewan.

Marshall and Shawn Bear from Little Pine First Nation build domestic meter swings for SaskEnergy.

Building new relationships with Aboriginal businesses

The third component of **Our Strategies for Success** with the Aboriginal community involves Business Development. This is defined as *"Stimulating and promoting the economic wealth and well-being for Aboriginal families and businesses through business networking and alliances."*

Aboriginal companies present us with an exciting opportunity to support them in their endeavours, while we competitively purchase products or services that can help us in our daily operations.

We've developed an extensive database of more than 700 Aboriginal businesses in the province. This information helps us determine the services these businesses provide, where they are located, and how their products or services can help us achieve our goals. During 2000, SaskEnergy awarded 27 construction and service contracts (totaling $9 million). Thirteen of these contained significant Aboriginal content. Some of the services these businesses provided for us last year included meter moves, construction and consulting services, promotional

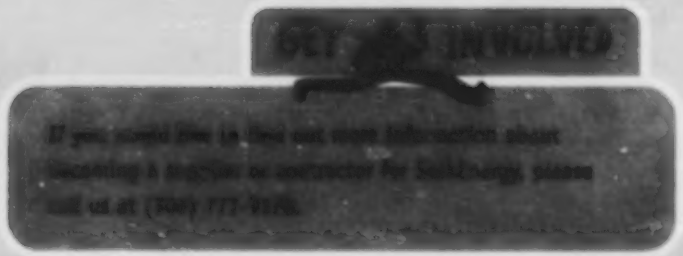
Objectives	1999	2000	2001 (Target)
Awarded Contracts - % Aboriginal Labour Content	25.7%	18%	30%

items, printing, and gasification projects on First Nations communities.

Contractors who helped us build a natural gas pipeline in Manitoba's Swan River Valley last year also hired 64 Aboriginal employees. TransGas also hired five Aboriginal pipeline construction inspectors and one Aboriginal Employment Coordinator.

Back at home, SaskEnergy continued with a five-year plan to contribute $30,000 to the development of an Enterprise Centre in Saskatoon – through our partnership agreement with the Saskatoon Tribal Council.

Future business partners are critical to SaskEnergy. This innovative centre will help create successful First Nations businesses with important skills needed in the future economy.



ENVIRONMENTAL STEWARDSHIP

TAKING THE ENVIRONMENT SERIOUSLY

"We have not inherited the earth from our forefathers.
We are borrowing it from our children."
— First Nations Proverb

As we hear on television and read in the newspaper, protecting and nurturing our environment is crucial to our immediate and long-term future.

The air we breathe and the surroundings we exist in cannot be taken for granted.

That's why SaskEnergy is doing its part to improve the environment – by reducing our greenhouse gas emissions (GHG).

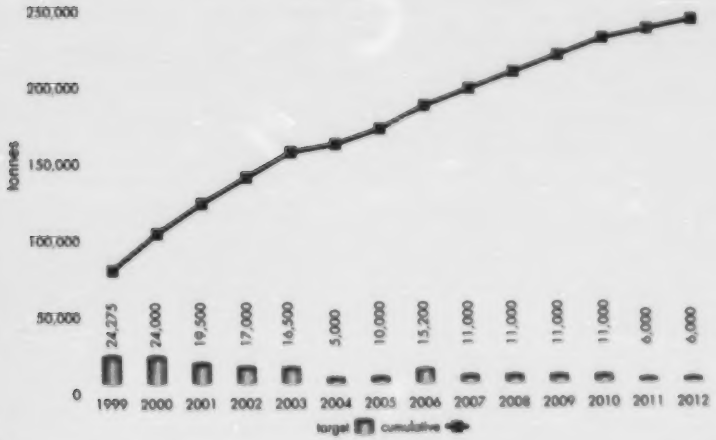
Helping create clean air for Saskatchewan

Under the Kyoto Agreement, Canada's goal is to reduce its greenhouse gas emission levels by 2012 to 6% below 1990 levels.

SaskEnergy used this 6% target as our corporate goal, and we are working towards reducing our corporate emissions by 139,200 tonnes within the next 12 years.

We're already almost half-way to our goal, and have reduced emissions by about 100,250 tonnes. Throughout last year we developed a number of new public education and outreach initiatives to help our employees and customers reduce their own emissions. We were the first natural gas company in the prairie

GHG Targets, Accomplishments & Cumulative Totals



provinces to use factory-built natural gas vehicles. And through the Action by Canadians Program, we educated more than 300 employees about the effects of climate change. Roughly 80% of participants pledged to reduce 483 tonnes of greenhouse gases – equivalent to about two tonnes per person.

To help protect Saskatchewan's habitat, we developed a *Nature Saskatchewan Partnership*. Through this program, we supported the Burrowing Owl Interpretive Centre in Moose Jaw, the Last Mountain Lake Bird Observatory, and an inventory of Crooked Lake fen and other nature sanctuaries. Our employees also took the initiative to protect the environment by planting thousands of trees at SaskEnergy and TransGas facilities around the province.

Besides these unique programs, we also pressed forward with a number of existing projects, such as the line heater efficiency program, which retrofits line heaters that pre-heat high-pressure natural gas before it passes through our regulator stations. In the consumer market we sponsored the R-2000 Program, which encourages the construction and purchase of energy efficient homes in the province.

We've also partnered in the Energuide for Houses Program, which advises homeowners on how to improve energy efficiency.

An effective recycling and refurbishing program

SaskEnergy has undertaken a major initiative to reduce our surplus and obsolete materials, repair existing meters and valves, and exchange catalytic heaters and regulators. As well, we've designed two new product recovery programs: one that recovers and fuses unused polyethylene pipes; and another that collects wooden reels from job sites and returns them for credit. These programs will not only save SaskEnergy more than $3 million over five years, but will also result in the recycling and salvaging of more than 81,000 pounds, or 37 metric tonnes of plastic, wood and metal materials.

GET INVOLVED

If you have any interesting ideas on how SaskEnergy can protect the environment, please contact our Environmental Affairs department, at (306) 777-9368.

For the EnerGuide publication, "Keeping the Heat In", write to: Energy Publications, Office of Energy Efficiency, c/o DLS, Ottawa, Ontario, K1A 0S9, Fax: (819) 994-1498, Telephone: 1-800-387-2000. The Office of Energy Efficiency's web site is: http://oee.nrcan.gc.ca.

PLANNING

OUR NEXT STEPS

"You have brains in your head.
You have feet in your shoes.
You can steer yourself.
Any direction you choose."
— Dr. Seuss, 'Oh, The Places You'll Go'

For any organization, the goals of Corporate Social Responsibility are not static, nor achieved overnight. They evolve over time.

Each year, companies set their individual targets that will help them realize their goals.

The vision for SaskEnergy involves us achieving the targets we've outlined in this report, and setting new targets in the coming years.

But we'll also go further than what you've seen in this booklet, by benchmarking ourselves against criteria developed by the Conference Board of Canada. This tool will help us assess our current success in Corporate Social Responsibility, and create other socially responsible practices.

We've come far in some areas. In others, there is still room to grow.

Regardless, all of us look forward to achieving these goals. By setting a standard for excellence in corporate citizenship, we can continue strengthening our relationship with you, and the rest of Saskatchewan.

Thank you for your ongoing support.

For more information about
our commitment to
Corporate Social Responsibility,
please call us or write to us at:

SaskEnergy Corporate Affairs
1100-1945 Hamilton Street
Regina, SK S4P 2C7
Phone: (306) 777-9378 (collect)

www.saskenergy.com

LOOK BEYOND...

SaskEnergy

2000 Annual Report

On the surface, SaskEnergy provides safe and reliable natural gas service to customers throughout Saskatchewan.

But beyond what you initially see is the core of our business.

This core includes dedicated, inspired employees whose expertise is not only in demand across the continent, but throughout the world.

It encompasses a commitment to providing among the lowest rates of any jurisdiction in North America.

And it involves a philosophy founded on the principles of corporate social responsibility.

We strive for excellence in everything we do. Discover more about us by taking a closer look at SaskEnergy.

"There's a singular trait that defines all good companies. They share a relentless determination to get better. Many tools can be used to judge a company's performance, but ultimately one of the most meaningful is the company's willingness to judge itself. Some companies may ask you to look around – the best companies want you to look inside."

Brian Mackenzie
Former President and CEO, Enbridge

101-04209/

Financial and Operating Highlights

Consolidated Financial Information	2000	1999
	(millions of dollars)	
Distribution Revenue	418	318
Transportation and Storage Revenue	74	76
Net Sales from Gas Brokering	26	20
Total Revenue	518	414
Cost of Gas	232	147
Other Expenses	242	230
Net Earnings	44	37
Capital Expenditures	58	61
Dividend	24	20
Capital Assets – Net	1,010	1,000
Total Assets	1,281	1,189

Operating Statistics		2000	1999
		(Petajoules)	
Gas Sales	Residential	34.4	31.2
	Commercial	27.9	25.2
	Farm	3.1	3.6
	Industrial	0.6	0.6
	Natural Gas Brokering Activities	60.5	52.8
TOTAL		126.5	113.4
		(Petajoules)	
Transmission Volumes	Domestic	198	182
	Export	146	137
TOTAL		344	319
Number of Customers			
	Distribution	320,340	317,219
	Transmission	203	203

SaskEnergy Incorporated

The Balanced Perspective

STRENGTHENING THE COMMUNITY

Objectives	Measures	2000	Target 2001	Target 2002	Target 2003	Target 2004	Target 2005
Demonstrate a philosophy of corporate social responsibility	Benchmark to Conference Board of Canada (year end)	*top quartile*	*top quartile*	*top quartile*	*top quartile*	*top quartile*	*top quartile*
	% Goods/Services sourced in Sask.	81%	80%	81%	82%	83%	83%
	Awarded Contracts - % Aboriginal labour content	18%	30%	32%	35%	37%	40%
	Greenhouse Gas Emission reduction (tonnes)	24,000	19,500	17,000	16,500	5,000	10,000
	Representative workforce	*To increase the representation of designated groups from the previous year's participation rates. Hiring levels will equal or surpass the demographics of Saskatchewan.*					

INVESTING FOR GROWTH

Objectives	Measures	2000	Target 2001	Target 2002	Target 2003	Target 2004	Target 2005
Increase Market Growth	# new Distribution customers	3,121	3,500	3,000	3,000	3,000	3,000
Increase Throughput on TransGas System	New TGL* receipts (million cubic feet per day (MMcf/d)	74	60	50	40	35	30
	New deliveries (MMcf/d)	20	10	50	15	15	15

COMPETITIVE RATES

Objectives	Measures	2000	Target 2001	Target 2002	Target 2003	Target 2004	Target 2005
Provide fair, competitive and stable rates	Achieve the lowest weighted average cost of gas among the provincial utilities	lowest	lowest	lowest	lowest	lowest	lowest
	TGL Export Rates compared to TransCanada/Nova	lower	lower	lower	lower	lower	lower

SHAREHOLDER VALUE

Objectives	Measures	2000	Target 2001	Target 2002	Target 2003	Target 2004	Target 2005
Provide industry comparable returns for the shareholder	Debt/Equity ratio	70/30	68/32	66/34	64/36	62/38	61/39
	Return on rate base - SEI**	6.03%	9.1%	8.6%	8.6%	8.5%	8.4%
	Return on rate base - TGL*	11.3%	11.4%	10.7%	9.9%	9.8%	9.6%

CUSTOMER SERVICE EXCELLENCE

Objectives	Measures	2000	Target 2001	Target 2002	Target 2003	Target 2004	Target 2005
Strong relationships with customers and enhanced customer choice	% satisfaction with service/reliability	92.5%	90%	90%	90%	90%	90%
	% transmission tie-ins completed within 90 days	85%	95%	95%	95%	95%	95%

EMPLOYEE WELL-BEING

Objectives	Measures	2000	Target 2001	Target 2002	Target 2003	Target 2004	Target 2005
Employees will work in a safe, healthy and rewarding environment	Lost time frequency rate (number of injuries per 200,000 hours worked)	2.23	0.0	0.0	0.0	0.0	0.0
	Preventable vehicle incident frequency rate (per 1,000,000 kms driven)	2.82	0.0	0.0	0.0	0.0	0.0
	Percentage of employees receiving training	83%	72%	74%	76%	78%	80%

SAFE & RELIABLE SYSTEM

Objectives	Measures	2000	Target 2001	Target 2002	Target 2003	Target 2004	Target 2005
Exceed industry standards for public safety and reliability	SEI** - Unplanned outages per 1,000 customers	3.15	4.4	4.0	4.0	3.0	3.0
	TGL* - Unplanned outages per year	2	0	0	0	0	0
	SEI** - Contacts with pipeline per 1,000 kilometres of pipe	2.05	3.46	3.38	3.31	3.24	3.00
	TGL* - Contacts with pipeline per year	1	0	0	0	0	0

VISION

SaskEnergy will be Canada's leading energy company by anticipating our customers' changing needs and providing innovative and responsive solutions.

We believe our values reflect our culture, and our commitment to our vision.

VALUES

Employee Development

We have a commitment to continuous employee development.

Individual Contribution

We enable individuals to be responsible and accountable for providing excellent customer service.

Trust and Teamwork

We have relationships that are based on trust, cooperation and teamwork.

Safety, Health and Environment

We provide a safe, healthy workplace and high environmental and public standards.

Union Equality

We recognize and respect our partnership with the union.

Partnerships

We will develop partnerships that will enhance the economic well-being of Saskatchewan.

Community Involvement

We encourage corporate and individual involvement in community activities.

Recognition

We recognize the contribution of individuals and teams.

Respect

We respect one another and the importance of family.

Customers

We are committed to providing consumers and gas producers with reliable, cost-effective service.

Open Communication

We have open communication, open dialogue and participatory management.

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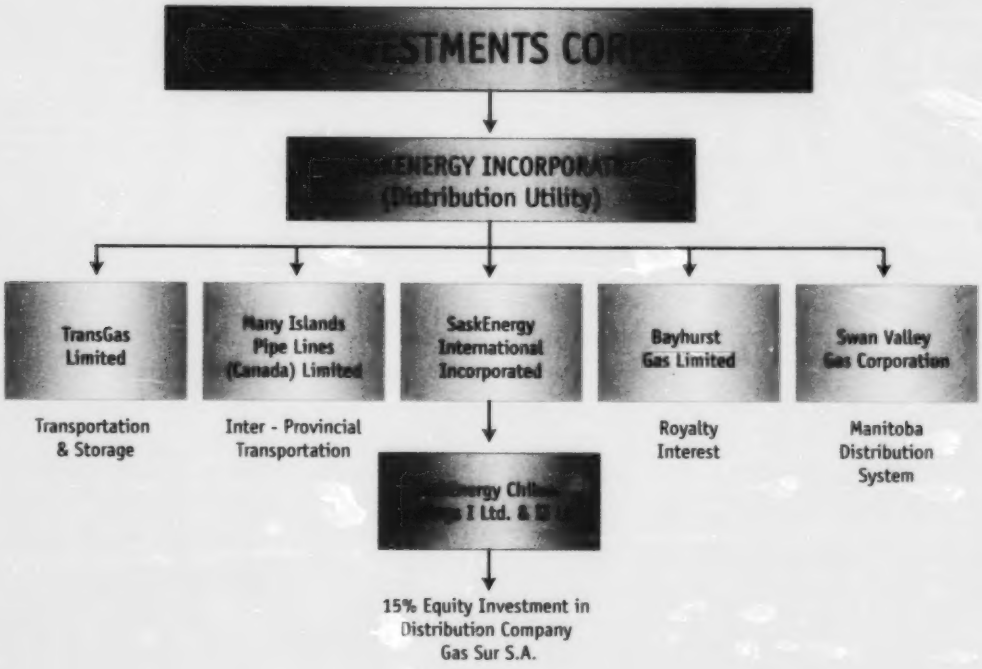
Corporate Profile

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan Crown corporation governed by *The SaskEnergy Act*. It is a designated subsidiary of Crown Investments Corporation of Saskatchewan (CIC). CIC is also a Crown corporation and effectively operates as the Province's holding company for commercial Crown corporations (such as SaskEnergy, SaskPower, SaskTel, etc.) and various commercial investments.

SaskEnergy's corporate structure consists of SaskEnergy, the Crown corporation, plus five wholly-owned subsidiaries as shown on the following page.

SaskEnergy's two major business units are the distribution utility (commonly referred to as the Local Distribution Company or LDC), and the transmission business (TransGas Limited). The LDC has an exclusive legislated franchise to own and operate a natural gas distribution utility within the province of Saskatchewan. The provincial Cabinet regulates its rates, on the advice of the Saskatchewan Rate Review Panel.



TransGas Limited (TransGas) has the exclusive legislated franchise to own and operate a natural gas transmission system within the province of Saskatchewan. It also owns and operates a non-regulated natural gas storage business that is integral to the transmission pipeline system. TransGas' transmission rates are subject to Cabinet approval.

Many Islands Pipe Lines (Canada) Limited (MIPL(C)L) owns 11 transmission pipeline interconnections to Alberta, two into the United States, and one into Manitoba. The National Energy Board regulates (MIPL(C)L).

Bayhurst Gas Limited owns a gross overriding royalty on approximately 500 properties in Saskatchewan and Alberta.

Swan Valley Gas Corporation (SVGC), formed in 2000, owns a natural gas distribution business in the Swan Valley area of Manitoba. The Manitoba Public Utilities Board regulates SVGC.

SaskEnergy International Incorporated (SEII) was created in 1996 to market SaskEnergy's expertise globally, and to investigate niche market equity opportunities.

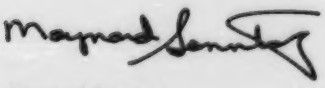
LETTER OF TRANSMITTAL

March 31, 2001

The Honourable Dr. Lynda M. Haverstock
Lieutenant Governor
Province of Saskatchewan

May it please Your Honour:

I respectfully submit the Annual Report of SaskEnergy Incorporated for the year ended December 31, 2000, in accordance with The SaskEnergy Act. The Financial Statements are in the form approved by the Treasury Board, and have been reported on by the Corporation's auditors.



Maynard Sonntag
Minister of Crown Investments Corporation

CHAIRMAN'S MESSAGE

Frank W. Proto

On behalf of SaskEnergy's Board of Directors, I am pleased to provide a brief perspective on the Corporation's activities and accomplishments in 2000.

Ultimately, the relevance of a Crown corporation in the 21st Century will be determined by its ability to bridge successfully the traditional public expectations of customer service at low prices while operating in a dramatically-changing business landscape where quick decision-making is paramount for long-term success.

To meet the sometimes competing expectations of different stakeholders, public corporations like SaskEnergy must dig beneath the surface for solutions. There is compelling evidence that by doing so, SaskEnergy is fulfilling the dual expectations of Saskatchewan people as customers and shareholders.

Consider, for example, SaskEnergy's gas-price hedging program, which saved Saskatchewan consumers $74 million in 2000 by avoiding some of the severe price spiking in the market that hit consumers in every other province. It is questionable whether most private gas utilities, which normally receive automatic pass-through of their gas costs from regulators, would even consider undertaking a program which could deliver these benefits to customers.

The locally based model of adding new communities to the distribution network, and SaskEnergy's member network of more than 95 plumbing and heating contractors, are further examples of distinctly made-in-Saskatchewan solutions based on values of cooperation and partnership.

Similarly, TransGas' competitive rate structure played a significant role in supporting the high level of gas drilling and production activity in Saskatchewan.

These and other innovations will be required if SaskEnergy is to respond successfully to industry trends, such as the purchase of heating and plumbing retail businesses by major natural gas utilities, and the need to keep improving service delivery while effectively managing costs. To continue to grow, we also need to pursue new opportunities in other parts of Canada and the world.

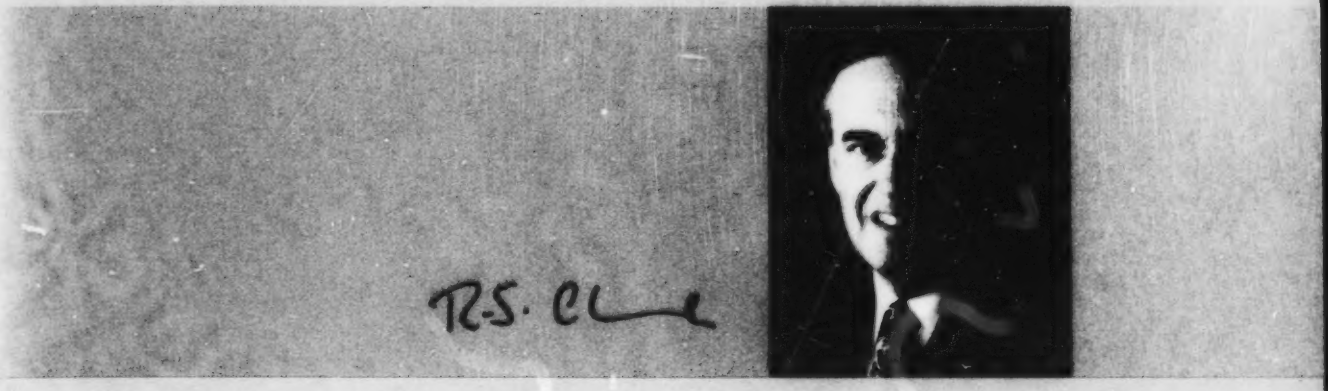
SaskEnergy must aim for excellence. It must be at the forefront of delivering cost-effective distribution and transmission services. It should be a preferred employer not only in Saskatchewan, but also in Canada. And the financial importance of keeping the company healthy and growing cannot be overstated.

It was with considerable regret that I left the SaskEnergy Board at the conclusion of 2000. I thank my colleagues on the Board of Directors for their dedicated service and support during the past three years, and I wish them well for the future. I also want to thank the many outstanding people within SaskEnergy and TransGas, from front-line employees through to management, for their remarkable commitment which was evident to me on so many occasions.

It was a privilege to be associated with you. Whatever the future brings, I am leaving the Board knowing that collectively, you will always hold the needs of our customers and shareholders in high regard.

Best wishes for the future. You are on the right course to becoming Canada's leading energy company.

PRESIDENT'S MESSAGE



Defining superior business performance can be a somewhat elusive challenge.

Share price is one traditional yardstick used by private companies, but in today's turbulent business environment, today's market darling can quickly become tomorrow's disappointment. Growth is a second often-used measurement tool, but increasingly we see companies falter as they expand too quickly, or move into product lines or locations that could not be sustained. Similarly, the figures in a balance sheet can tell us much about a company, but it cannot necessarily tell us much about its culture, the well-being of its employees, or its commitment to the communities in which it operates.

Also, defining business excellence by pinpointing a company at a particular point in time is often a futile exercise, for superior performance is less of a destination and more of a journey. True excellence is reserved for those companies who are willing to ignore the labels of "New Economy" or "Old Economy," and rather, hold their values and their business models to the tests of time, their customers, and the marketplace.

When we rededicated ourselves to being Canada's leading energy company earlier this year, we did so with a quiet confidence based on an understanding of our existing strengths and a frank acknowledgement of where we could continue to improve our performance.

That's why we chose to use the model of the decathlete to support our vision. A decathlete is someone who is training all the time to become better. A competitor who may not be first in every single event, but whose overall excellence ultimately leads to victory. Someone who understands the critical importance of balance and persistence.

"We want our customers and shareholders to base their evaluation of SaskEnergy on results, not on clichés."

These are the qualities we believe we have brought to SaskEnergy customers for the past half century. These are the qualities we will need to keep nurturing for the future.

The decathlete model is particularly valid because it focuses on results. We want our customers and shareholders to base their evaluation of SaskEnergy on results, not on clichés.

We are focused on delivering meaningful results for our shareholders and customers in the following tangible ways:

- Delivering the lowest possible cost of natural gas service to our customers, even in a volatile market;
- Maximizing the usage of our existing transmission network;
- Demonstrating our low-cost operating structure through industry benchmarking;
- Prudently executing well-researched growth opportunities; and
- Working to be a leader in Corporate Social Responsibility in Canada, by enriching the communities in which we live and work.

GAS MARKET PROVIDES OPPORTUNITIES, CHALLENGES

One of the biggest challenges of the year for all energy distribution companies has been the unprecedented run-up in gas prices. The magnitude and volatility of this increase was not foreseen by industry experts, and it ultimately shocked 65 million natural gas users across North America.

While distribution companies are only the messengers in a market aggressively driven by the forces of supply and demand, the fall-out from the high prices was felt across the continent, from

consumer protests in Chicago, to rationing driven by spot prices of $55 (U.S.)/**gigajoule (GJ)** in California. Even in the heart of the industry in Alberta, year-over-year gas consumption charges rose by 100 percent or more.

In Saskatchewan, our policy of locking-in prices when advantageous, combined with our more economical storage gas, helped partially shield our customers from the increases that were experienced throughout North America. All in all, SaskEnergy customers saved approximately $74 million over market prices, and paid the lowest provincial residential rates in Canada for 2000. When our commodity adjustment took effect on December 1, 2000, its magnitude was less than half of that experienced in most other Canadian jurisdictions.

While there are some early indications that the most volatile phase of market pricing may be over, in the long-term it appears that prices will likely settle in the $5-$8/GJ range, well above what most Canadians have experienced since the mid-1970s. In this environment, it will be increasingly important to remind our consumers that natural gas remains one of the most cost-effective and environmentally-friendly energy sources available. To build customer loyalty and understanding, we will also need to promote energy conservation and deliver tangible methods of assisting individuals, families and businesses to cope with increases of this magnitude. These will be important priorities for our company in 2001.

While difficult for customers, a high-price commodity environment does deliver meaningful economic benefits resulting from increased exploration and development. Drilling in Saskatchewan topped 1,175 new wells in 2000, an approximate 19 percent increase over 1999, and the effects, in terms of employment and business activity, were felt in many communities in the province.

MAXIMIZING USAGE OF OUR TRANSMISSION NETWORK

SaskEnergy's transmission subsidiary, TransGas, continues to be well positioned to capitalize on this industry upturn. In Saskatchewan, a 3 percent increase in the province's gas production helped trigger an increase of almost 8 percent in the amount of gas transported by TransGas over 1999. We are now in the second year of our "Saskatchewan Connection" strategy, with the goal of maximizing the usage of our network linkages into the Alberta market.

In this respect, some early success has been realized with a new agreement with AltaGas to move 14.5 **million cubic feet per day (MMcf/day)** in TransGas' system. However, in an effort to attract more gas into the TranGas system, we have redoubled our efforts, including developing an innovative yet pragmatic approach where TransGas is prepared to make an investment in facilities from the wellhead to our transmission network. In addition, TransGas is working with Saskatchewan industry to help meet their growing demand for natural gas. New projects at Consumer's Co-operative Refinery Limited, the Queen Elizabeth Power Station, and Cory Potash Mine will come on stream in 2002 to help increase the use of the TransGas network.

BUILDING VALUE FOR LONG-TERM SUCCESS

SaskEnergy and TransGas perform very well in our core transmission and utility businesses – excellent service, a low-cost operating structure, competitive rates, and a strong record of safety and reliability. But we are committed to future growth, both inside and outside our borders, and the business vigor and entrepreneurial capacity it creates.

Prudent growth will create shareholder value. It offers our highly-skilled workforce new opportunities. It also offers a strategy to help stabilize rates.

"A good business will not only build itself, but also the communities in which it operates."

Promoting growth at home is evident through our relationship with the SaskEnergy Network – independent natural gas retailers and contractors across the province. Together we are finding new and expanded ways of serving our customers. Most notably this year, SaskEnergy and the Network made a strong entry into the furnace maintenance market by introducing our new Natural Choice Services™. We also increased the competitiveness of Network appliance financing, and rewarded customers with the popular AIR MILES® reward program.

Two investments specifically illustrate our capacity to stretch our wings, both close to home and far afield. Our 15 percent equity investment in Gas Sur S.A. - a distribution company serving the 8th region of Chile, including the cities of Talcahuano and Concepción - is performing according to our expectations. Closer to home, in Manitoba, we participated in a $13.6 million project to bring gas to the residents of Swan River, using the same community-based model we have employed so successfully in Saskatchewan.

At year end, we continued to perform consulting work in Nova Scotia. We will also seek other opportunities which make financial sense to our company.

SOCIAL RESPONSIBILITY A CORNERSTONE

A good business will not only build itself, but also the communities in which it operates.

The remarkable commitment of SaskEnergy's employees was recognized on December 15 when the Canadian Centre for Philanthropy honoured SaskEnergy and the United Way as one of only five partnerships in Canada to receive its prestigious "New Spirit of Partnership" Award for the 1999 Share the Warmth Sweater Recycling program. Again this year, this province-wide initiative, conducted by employee volunteers and

community organizations, collected more than 72,000 pieces of warm clothing for less fortunate families across our province.

While extremely gratifying, the award reflects just one aspect of our commitment to corporate social responsibility, which is a cornerstone of our company's culture.

As a company, we participated in – or financially supported – 430 community events in 85 communities across the province. In 2000, more than 4,000 hours of employee time were donated, with almost half of our workforce volunteering at these events – numbers, which while impressive in their own right, do not reflect the many hours our staff personally give to their own communities.

If we truly believe in this new millennium that we are our brother's keeper, business must operate in the common interest – and not just it's own. Good words will need to be backed by good deeds, day in and day out. Community involvement is not just part of our company. It is the heart of our company. The belief that we can offer helping hands and generous hearts to build a stronger, more inclusive Saskatchewan, is found throughout SaskEnergy and TransGas offices across our province.

In the 21st century, people will not only judge companies simply by the size of their balance sheets but also by the size of their hearts. Which isn't to say that the two factors aren't inextricably linked. When companies build a holistic relationship with the communities they serve, and employees reach out to help others, they simultaneously build strong relationships with their customers. The bonds that are made can withstand both good times and challenging times, and the effects of those relationships will ripple through every activity a company undertakes. Ultimately, they will become the mettle which defines superior business performance.

As you review the 2000 Annual Report, I encourage you to "Look Beyond" the balance sheet or transmission volumes to see the total picture of SaskEnergy and TransGas. We are a team of talented individuals dedicated to the people of Saskatchewan, and to the future of Saskatchewan.

OUR FOCUS

INVESTING FOR GROWTH, AND IN OUR CUSTOMERS, WILL HELP SASKENERGY BECOME CANADA'S LEADING ENERGY COMPANY. TO REACH THIS GOAL, WE WILL EVALUATE AND IMPLEMENT SOUND OPPORTUNITIES FOR GROWTH, WHICH WILL HELP US INCREASE OUR NET INCOME, PROVIDE NEW AND EXCITING OPPORTUNITIES FOR OUR EMPLOYEES, AND SHOWCASE SASKATCHEWAN'S EXPERTISE.

	Objectives	Activity	2000 (Target)	2000 (Actual)	2001 (Target)
TransGas	Increase throughput	Number of gas wells drilled in Saskatchewan	693	1,175	924
		Energy transported **Petajoules (PJ)**	319	344	337
		Saskatchewan production **(PJ)**	231	229	240
SaskEnergy	Increase market growth in Saskatchewan	Number of new distribution customers	4,000	3,121	3,500
SaskEnergy International	Increase Gas Sur's market growth in Chile	Number of new customers	2,100	2,538	5,000

"SaskEnergy employs many of the best people in our industry. No one is more qualified to take advantage of the opportunities that are out there...and deliver the benefits back to Saskatchewan people."

Dean Reeve, Vice President, Business Development

If you know where you're going, the next logical question is "How do I get there?"

Only with a clear plan will you reach your goal.

Our goal: to become Canada's leading energy company.

How we'll get there: by building our business.

Our plans consist of new customers and new opportunities; sound investment inside and outside of Saskatchewan; and increased revenues that are channeled back into our company, and into Saskatchewan.

We'll reach our destination because we have a solid, customer-focused foundation that's fortified through 45 years of providing natural gas in Saskatchewan. We operate not only one of the longest natural gas distribution networks in North America, but also one of the safest and most reliable. And we have always been committed to meeting our customers' changing needs, by providing them with innovative, responsive solutions.

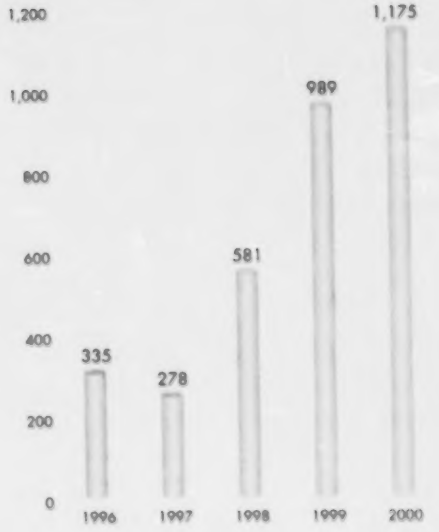
Breaking records – natural gas well drilling in Saskatchewan

As virtually every newscast and newspaper in Canada noted, last year marked an unprecedented demand for natural gas across the continent, escalating drilling to record levels from one corner of the country to the other.

Saskatchewan's natural gas patch was no exception. Throughout the year, the province boomed with unsurpassed drilling activity – resulting in 1,175 new gas wells, and a 3 percent increase in the province's gas production. As a result, the amount of energy transported on the TransGas system increased by almost 8 percent over the levels recorded in 1999.

To accommodate incremental flows on the system last year, TransGas invested $3.6 million into constructing 13 new receipt point connections, and enhancing eight others across the province. Some projects worth noting include the connection of gas production in Lampman – an oil-rich area in southwestern Saskatchewan, and

Natural gas drilling in Saskatchewan (1996-2000)



Adding another successful receipt point...one of 13 completed in 2000.

the connection of TransGas' first receipt customer directly into a low-pressure distribution line. In this scenario, the producer avoids installing expensive compression facilities, and TransGas receives incremental revenues from these otherwise uneconomic gas reserves. Overall, TransGas receipt facilities built last year resulted in 77 **Terajoules (TJ)** per day of additional receipt capacity onto the system.

Transport demands will increase even further for TransGas through some major oil and electricity projects in the province. The Consumers' Co-operative Refinery Limited in Regina announced a large expansion project last year, while SaskPower announced two major projects: one increasing electrical generation capacity at the Queen Elizabeth Power Station in Saskatoon, and the other involving a major cogeneration project at the Potash Corporation of Saskatchewan mine near Cory.

Meanwhile the robust industry strengthened our business relationships with our western neighbours. Last fall, AltaGas made a commitment to move 14.5 **million cubic feet per day (MMcf/day)** of gas to the export market via the TransGas system. As well, TransGas' toll-rates remained frozen again last year, as part of the company's competitive "Saskatchewan Connection" marketing initiative. This venture helps companies realize significant annual transportation savings, while TransGas strives to meet one of its key business objectives – to fill its pipeline.

As for 2001, the outlook is positive. Industry forecasters predict another strong drilling year for 2001, resulting in sustained receipt point construction activity. In addition, highly competitive gas transportation rates, and an attractive gas market, should encourage additional flows of gas near the Saskatchewan-Alberta border.

Saskatchewan: our first commitment

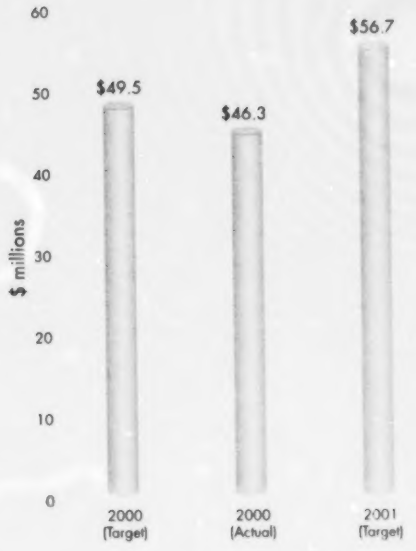
Our roots are in Saskatchewan...our shareholders are in Saskatchewan...and our employees are in Saskatchewan.

Saskatchewan is – and always will be - our top priority.

We have a strong and proud track record of investing into Saskatchewan communities. For the past eight years, more than $560 million in capital spending has extended our network reach into hundreds of Saskatchewan communities, creating a sense of excitement expressed by people receiving natural gas service for the first time.

Within SaskEnergy's total net capital investment of $46.3 million in 2000, natural gas was provided to more than 3,100 new customers in 10 rural, resort and First Nations communities across the province: Last Mountain Lake West Resort; Mission Ridge Resort; Prince Albert Lake Resort; Sandy Beach Resort; Turtle Lake;

SaskEnergy Net Capital Investment in Saskatchewan



Convenient cooking methods are a major marketing tool for SaskEnergy customer, InfraReady Pr
This Saskatoon-based company uses natural gas and infrared energy to pre-cook products such
legumes and cereals for U.S. and Latin American markets – reducing cooking time by as much a
hour over the traditional boiling method. President Mark Pickard, who received the 2000 Saskatc
Trade and Export Partnership (STEP) Award for Saskatchewan Exporter of the Year, said, "We exp
little Saskatchewan natural gas in each of our products," adding this is especially important in na
where energy is imported and expensive.

SaskEnergy is sponsoring academic research that will improve the quality of pulses and cereal p
and reduce cooking times associated with natural gas infrared processes. The results of this res
should help InfraReady Products expand their markets and generate sales for Saskatchewan pro

Chamakese Resort; Denholm; Spiritwood; Kenosee Lake Resort; and One Arrow First Nation.

Saskatchewan operates in a mature market. Growth for 2000 was about 1 percent of SaskEnergy's overall customer base. That's why we're continually seeking new growth opportunities with various commercial businesses in the province. Throughout 2000, we provided service to 160 new commercial customers, including farms, grain drying operations, poultry and hog barns, as well as retail businesses and manufacturers.

We also discovered opportunities to serve various oil companies riding the wave of intense drilling activity in Saskatchewan. Nine such businesses saw a boost to their bottom line savings by connecting to SaskEnergy's distribution facilities and TransGas' high-pressure transmission system. These new connections – with an ultimate load the equivalent of 30,000 new homes – resulted in more than $5 million in energy savings for these customers...dollars that could be reinvested into Saskatchewan's oil industry.

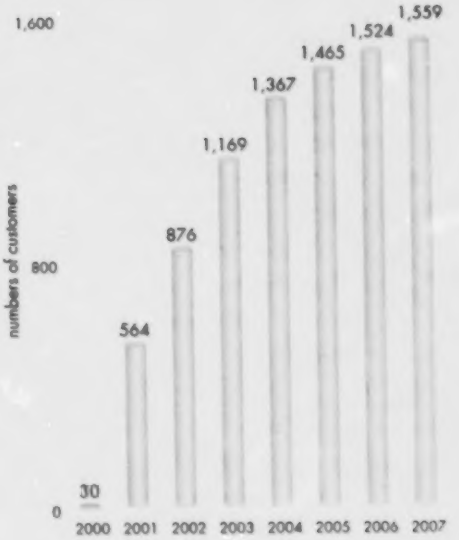
Our investments focus on more than dollars

Whether it's selling groceries at a corner store in Dysart, or running a clothing shop in downtown Saskatoon, successful businesses know their future depends on their ability to attract more customers, and offer new products that capitalize on what's already displayed on the shelf, behind the counter, or out on the floor.

SaskEnergy's core business is natural gas transmission and distribution. Our "floor" is Saskatchewan. To upgrade our infrastructure, extend our network reach, and provide among the lowest natural gas rates in North America, we must look for prudent investment opportunities outside of the province.

Our biggest strategic investment last year was the Swan Valley Project – a $13.6 million infrastructure and delivery initiative that will bring natural gas for the first time to a projected 1,500 residential, industrial, and commercial customers

Customer projections for Swan Valley Project*



*as of December 31, 2000

Construction crews plough in pipe in a residential area of Benito, Manitoba. By the end of 2000, residents of this area received natural gas service for the first time.

in Benito, Minitonas and Swan River, Manitoba.

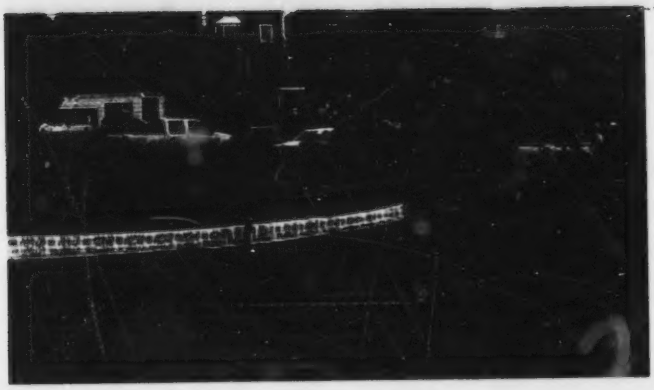
Construction began in October. Two months later, the dream of natural gas service became a reality for more than 30 Benito homes and businesses, and also Louisiana Pacific, a large wood product producer east of Minitonas. Remaining customers in Swan River and Minitonas will have the opportunity to receive natural gas by Summer 2001.

Funding for the project is provided through the federal and Manitoba governments, local municipalities, Swan Valley customers, and SaskEnergy. Our Corporation's contribution of $6.7 million is through two wholly-owned subsidiaries: Many Islands Pipe lines (MIPL(C)L) and the Swan Valley Gas Corporation (SVGC).

Some 6,000 miles away, SaskEnergy's first international equity investment was on track with its business plan objectives. Gas Sur S.A. is a Chilean natural gas distribution company that serves a market area of more than one million people – including the cities of Concepción and Talcahuano. The company exceeded its target to connect more than 2,100 new customers in the Year 2000, its first year of distributing natural gas. In 2001, Gas Sur plans to connect over 5,000 new customers, while continuing to invest in new distribution mains and networks.

SaskEnergy International (SEII) first announced this 15 percent investment in Gas Sur in December of 1998. Through our Technical Advisory Services Agreement, we have assisted Gas Sur S.A. with geographic information systems, marketing, measurement and distribution engineering.

Closer to home, a number of employees from SaskEnergy



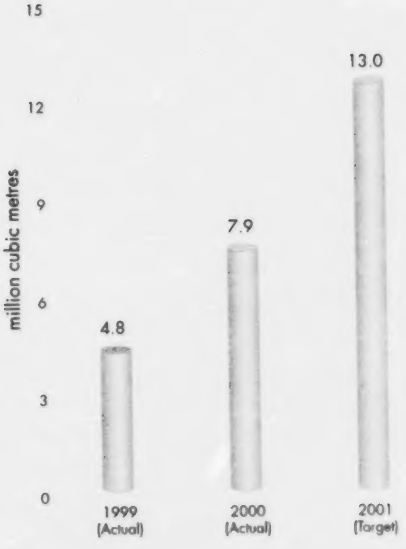
Lomas San Andreas, Chile, is one of the areas to receive natural gas through Gas Sur S. A.

are consulting to develop a natural gas distribution system in Nova Scotia. Our role involves pipeline route selection, equipment selection, polyethylene fusion training, engineering due diligence and regulator station design.

Employee expertise was also a significant boon for us last summer, as the International Generating Company of Boston (InterGen) selected SaskEnergy to help create a three-cavern natural gas storage facility in northeast England. As world pioneers of salt cavern technology, SaskEnergy offers critical expertise when helping companies develop underground natural gas storage facilities.

Since its inception in 1996, SaskEnergy International has participated in 16 consulting projects, representing a total of over $1 million in revenues to the company.

Gas Sur Sales Volumes



By The Numbers

3: percent increase in Saskatchewan natural gas production since 1999

8: percent increase in energy transported in Saskatchewan since 1999

10: number of new communities that received natural gas service in 2000

21: number of new gas receipt point commitments in 2000

1,175: number of gas wells drilled in Saskatchewan

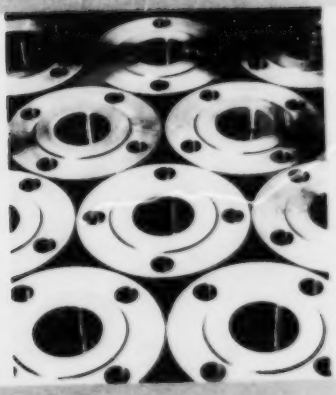
2,538: number of new customers connected by Gas Sur in 2000

3,121: number of new Saskatchewan customers connected in 2000

3,100,000: amount in cubic metres by which Gas Sur sales volumes exceeded 1999 sales volumes

14,500,000: amount of new gas in cubic feet transported by AltaGas per day, as part of a business agreement with TransGas

46,300,000: amount of dollars of net capital investment for Saskatchewan



OUR FOCUS

WE WILL BE PROACTIVE, CONTINUING TO DEVELOP STRONG RELATIONSHIPS WITH OUR CUSTOMERS BY PROVIDING THEM WITH THE FLEXIBILITY, CHOICE AND QUALITY SERVICE THEY DESERVE. ALL OF OUR CUSTOMER SERVICE PROCESSES WILL MEET OUR CUSTOMERS' NEEDS, AND WILL PROVIDE THE BEST SERVICE AT A COMPETITIVE PRICE.

	Objectives	Measures	2000 (Target)	2000 (Actual)	2001 (Target)
SaskEnergy	Develop strong relationships with customers	% satisfaction with service/reliability	90%	92.5%	90%
	Provide fair, competitive and stable rates	Achieve the lowest weighted average cost of gas in Canada	lowest	lowest	lowest
	Provide enhanced customer choice	Increase participation in: appliance financing customer financing	$500,000 - $1 million $500,000 - $1 million	$575,000 $900,000	$600,000 - $1 million $500,000 - $1 million
	Increase use of furnace maintenance services	Sales growth for SaskEnergy Home Check-Ups and Home Heating Tune-Ups	2,000 - 4,000	2,853	4,000 - 7,000
TransGas	Provide enhanced customer choice	% transmission tie-ins completed within 90 days	95%	85%	95%
	Provide fair, competitive and stable rates for TransGas customers	Lower than TransCanada/Nova export rates	$0.238/**gigajoule (GJ)**	$0.238/GJ	$0.238/GJ

"SaskEnergy has the marketing and public education capabilities that we can benefit from as a small business, to help us promote the advantages of regular furnace maintenance."

Danny Vaughn,
Gibbon Heating and Air Conditioning, Saskatoon

To serve Saskatchewan...and do it right...means understanding how business is done in this province. It also means recognizing Saskatchewan's distinct culture.

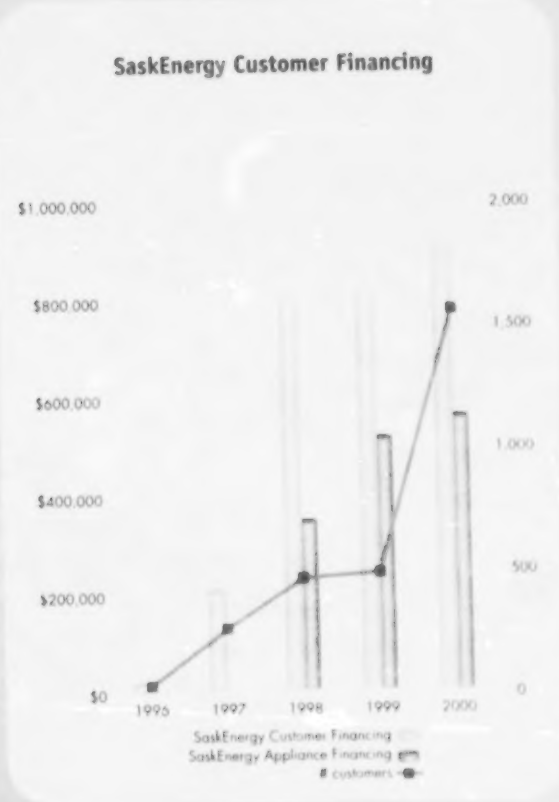
With more than 900 communities in Saskatchewan, buying decisions are made in local coffee shops or in hometown businesses as often as they are in downtown office buildings.

And with one million people spread over 500,000 kilometres, customers in Saskatchewan demand choice, reliability, and the opportunity to do business close to home.

A unique approach to partnerships

SaskEnergy's Member Network of 97 independent plumbing and heating contractors exemplifies the community-based model...and the service mentality...which SaskEnergy strives to achieve.

Membership in the Network grew by almost 25 percent in 2000, with the provincial launch of SaskEnergy's Natural Choice Services™ - the SaskEnergy Home Check-Up and the Network Home-Heating Tune-Up. Almost 3,000 customers in more than 250 communities took advantage of these preventative maintenance services that keep furnaces in top running condition, and give our customers peace of mind throughout the winter.



In July, SaskEnergy and participating Network members began offering AIR MILES® reward miles. Together, we have used this loyalty tool to help us successfully promote Natural Choice Services, Network appliance and equipment sales, as well as SaskEnergy payment options, such as the Equalized Payment Plan (EPP), Pre-Authorized Payments (PPP), and Annual Statement Billing.

Combined with the options our SaskEnergy Network Members already offer – such as natural gas appliances, installations, and in-store financing – these Natural Choice Services help provide the ease and flexibility our customers require.

For our new customers, we continued to offer the popular SaskEnergy Customer Financing. Last year alone, we provided more than $900,000 in financing to help our customers manage their installation costs. To compete with major retailers, SaskEnergy Network Members now offer appliance financing with no payments for six months.

Managing the challenges of natural gas prices

Delivering more choice and cost-saving options to customers is imperative as the natural gas market moves to new record highs. While as little as three years ago gas was trading at approximately $2/Gigajoule (GJ), market prices were above $10/GJ toward the end of 2000.

Although natural gas remains one of the most cost-effective energy sources, the signs of rate fatigue are present not only for Saskatchewan consumers, but also for all four million Canadian natural gas customers.

SaskEnergy's highly-effective gas price locking program made Saskatchewan the only jurisdiction in Canada to avoid rate increases this past summer. All in all, this hedging program saved Saskatchewan consumers $74 million in the 2000 calendar year.

Unfortunately, the corporation's low-priced contracts ended October 31, 2000. This caused the corporation to apply for a 50% adjustment to its gas consumption charge that was implemented on December 1, 2000. While the average residential customer experienced a $17 per month increase as a result, SaskEnergy's rates were still the lowest in the entire country for 2000 – about $115 less than average yearly rates for Calgary consumers, and $220 less than the average yearly rates in Winnipeg.

Natural gas rate comparison - 2000

(Calendar year 2000. Based on typical consumption of 3,550 m³/year. Includes all taxes, surcharges and utility rebates).

Helping customers – the key to providing good service

Although Saskatchewan people benefit from among the lowest natural gas rates in the entire country, we know we can do more to help lessen the impact of volatile prices on our customers.

In October we developed an energy conservation campaign to help all homeowners keep their energy bills down throughout the winter.

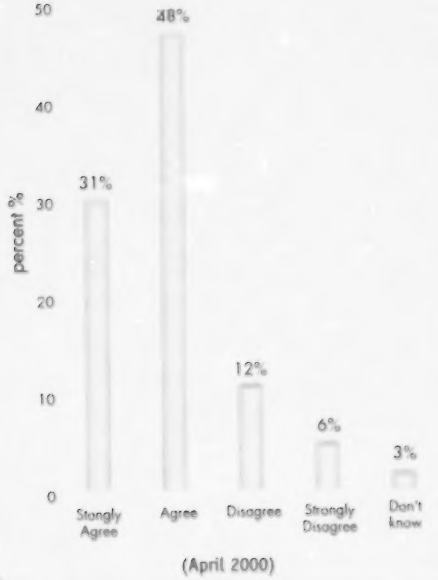
A four-page flyer called the "SaskEnergy Home Energy Savings Guide," shared some helpful "do-it-yourself" tips all homeowners can use to ensure their homes are as energy-efficient as possible. This promotional piece also encouraged customers to sign up for our convenient billing and payment options – the Equalized Payment Plan (EPP), the Pre-Authorized Payment Plan (PPP), and Annual Statement Billing.

EPP helps customers avoid peak winter bills by spreading their bills over 12 months, until the annual settleup. PPP and Annual Statements create a win-win situation for customers and SaskEnergy, by simplifying payment options and lowering SaskEnergy's costs. With the added incentive of an AIR MILES® bonus offer, more than 10,000 customers signed up for these services in just three months.

By providing these helpful tips and incentives, we accomplish two goals: we continue to educate our customers, and help ensure they are satisfied with the level of service we provide.

SaskEnergy customer research conducted in April 2000 indicated that more than 90 percent of our customers give SaskEnergy a good or better rating for our quality of service. Almost 80 percent also agree that SaskEnergy provides good value for their money.

Customer research:
Does SaskEnergy provide good value?



(April 2000)

On the transmission side of our business, TransGas also receives a high approval rating from its customers. Through the ongoing Customer Dialogue Process – a collaborative round-table forum to discuss rate and service issues – customers evaluated TransGas' business policies last year. They also developed ideas on how to create additional flexibility in their dealings with the company. The policy changes also pave the way for further e-business applications in 2001, enhancing "real time" customer information access.

Customers also place TransGas' competitive rates near the top of their list of priorities. Export transportation tolls are 10 percent lower than TransCanada Pipelines' Alberta rates, and have been further strengthened by a two-year rate freeze.

Besides measuring customer perception, SaskEnergy participates in independent benchmarking studies to quantify our operating performance against that of other energy companies. Last year, SaskEnergy was one of eight Canadian and South American companies to assess its ongoing operational effectiveness.

Through an independently-sponsored study, the companies measured their operating and maintenance expenses in three cost categories: system operations; core customer and businesses; and support functions, which include information systems and human resources.

In all three areas measured, SaskEnergy's costs were below the averages recorded by other participating companies. Our performance in system operating expenses ranked the best.

Considering SaskEnergy maintains one of the longest distribution networks in North America, this study proves the value of the low-cost operating mentality that allowed customers to have the lowest natural gas rates in North America throughout last year.

Benchmarking study - system operating expenses per length of distribution pipeline

By The Numbers

0: number of provincial natural gas utilities in Canada with rates lower than SaskEnergy's

20: number of independent contractors and retailers who joined SaskEnergy's Natural Gas Network in 2000

79: percentage of customers who think SaskEnergy provides good value for their money

90: maximum number of days for new production or delivery customers to be connected to the TransGas network

93: percentage of customers who believe SaskEnergy provides good or better quality service

97: total number of SaskEnergy Network Members

1,557: number of customers who selected financing options through SaskEnergy and our Network Members

2,853: number of customers who had either the SaskEnergy Home Check-Up or Home Heating Tune-Up

6,167: number of customers who collected AIR MILES® reward miles through SaskEnergy and our Network Members in 2000

10,188: number of customers who signed up for Equalized Payments and Pre-Authorized payments during a fall promotion in 2000

TransGas and Adjacent Pipeline Systems

OUR FOCUS

OUR NATURAL GAS DELIVERY SYSTEM WILL MEET OUR CUSTOMERS' EXPECTATIONS AND EXCEED INDUSTRY STANDARDS FOR PUBLIC SAFETY AND RELIABILITY. TO DO SO, OUR GOAL IS TO ELIMINATE ALL INTERNALLY CAUSED CUSTOMER OUTAGES AND MINIMIZE THE EXTERNALLY CAUSED OUTAGES. AS WELL, OUR GOAL IS TO RESPOND TO EMERGENCY SAFETY SITUATIONS IN ONE HOUR OR LESS.

	Objectives	Measures	2000 (Target)	2000 (Actual)	2001 (Target)
SaskEnergy	Exceed industry standards for public safety and reliability	SaskEnergy unplanned outages	4.6	3.15	4.0
		SaskEnergy contacts with pipeline per 1,000 kms of pipe	3.5	2.05	3.46
TransGas	Exceed industry standards for public safety and reliability	TransGas unplanned outages	0	2	0
		TransGas contacts with pipeline per year	0	1	0

"Our exceptional system integrity record has never been left to chance. That's because our customers have told us that securing the safe and reliable delivery of their natural gas supply is a priority."

Dick Graham,
Executive Director, Engineering and Technology

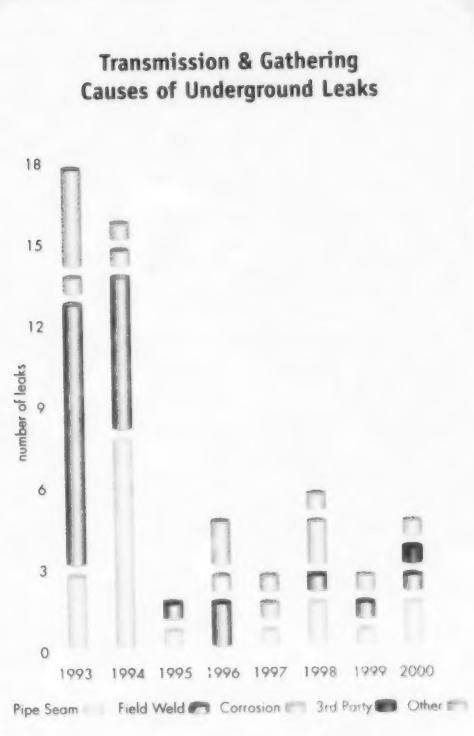
We operate one of the most mature and largest natural gas networks in North America, and we do so safely and reliably.

We meet that commitment through preventative safety. As they say, an ounce of prevention is worth a pound of cure.

Preventative safety – a proactive approach

Despite the age of our system, the vast kilometres of network that intersect the province, and the load requirements brought on by typical Saskatchewan winters, SaskEnergy has achieved among the lowest incident rates in Canada. For example, by working with our customers, SaskEnergy's unplanned outages were 3.15 per 1,000 customers last year, while TransGas experienced just two service outages.

Hundreds of employees strive to ensure our system operates safely and reliably each day. And we are proud to say that some of the most advanced system integrity programs anywhere are performed in Saskatchewan, designed by Saskatchewan people.



Something old, something new

Ensuring system integrity is not a new practice at SaskEnergy. In 1995, our employees began building a long-term program aimed at meeting our customers' number one priority: reliability of supply.

With that in mind, SaskEnergy launched a comprehensive system integrity program focused on three key areas of our transmission and distribution network: compressor stations; storage caverns; and pipelines.

By using thorough modeling, assessment, and investigative programs, we prioritized study areas within our system and monitored the conditions of our pipelines.

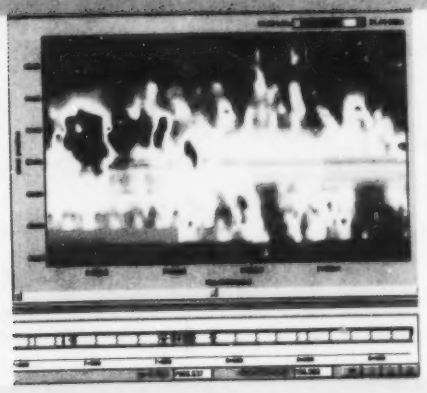
We also began leveraging leading-edge research produced by such industry associations as the Pipeline Research Council International and the Canadian Energy Pipelines Association. Not only did SaskEnergy share and collaborate in the research of dozens of North American companies, but we also helped develop the scope of the investigation to address needs specific to our system.

In the end, information provided by these associations on stress corrosion cracking, in-line inspection, defect and risk assessment, and third-party damage, have been invaluable in extending the useful life of our system.

We also combine this high-level, thorough investigation with a comprehensive maintenance program that combines two assets: leading-edge technology and world-class expertise.

Nowhere was this combination more apparent this year than in a pilot project focused on new technologies in data collection, and remote cathodic protection monitoring. Cathodic protection is an induced voltage on the pipeline that protects it from corrosion.

SaskEnergy installed remote monitors at 13 facilities in the Weyburn area. This not only provided operational monitoring, but also gathered data for cathodic protection. Thanks to



Using Rosen Canada's in-line inspection tool, TransGas analyzed potential metal loss on our Coleville to Biggar 14-inch pipeline.

the pilot project, we've increased productivity while extending the useful life of our pipelines.

Though our pipelines are aging, we are committed to their well-being for service through investigative inspections, the use of smart tools, corrosion mitigation, and new technologies in remote monitoring.

With more than 13,000 kilometres of transmission pipeline in our network, annual line inspection and maintenance is paramount to our commitment to safety and reliability.

Using nine-foot long electronic devices commonly called "smart tools," TransGas inspected two critical pipelines covering over 300 kilometres this year. Electronic tools were placed inside our pipelines to gauge wall thickness, defect size, dents, geometry, and metal loss. Information stored in the on-board computer was then cross-referenced with a satellite positioning system to mark anomalies for future inspections on the line to within one metre of accuracy.

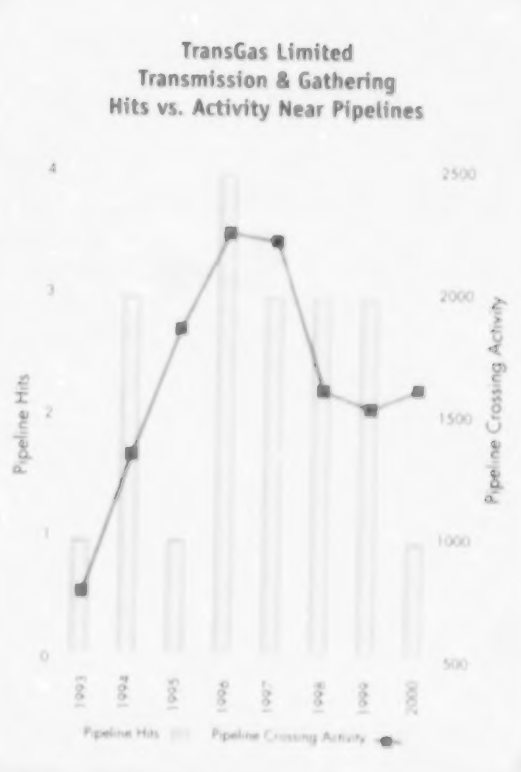
On TransGas' Coleville to Biggar 14-inch diametre pipeline, we focused on metal loss and line geometry, mapping the inside of the line. We also ran an in-line inspection on a 16-inch diametre pipeline from the Saskatchewan-Montana border to Havre, Saskatchewan, mapping the geometry of a vital international connection.

Gathering thousands of hours of data on metal loss, our employees worked with international experts to analyze and diagnose pipeline anomalies. Their findings were then included in our long-term integrity strategy. Although results showed our system integrity is consistent with others of the same age, it also highlighted areas that will require further investigation.

High-tech tools and down-home visits

Whether we're working with people around the world, or right here at home, SaskEnergy demonstrates the same level of dedication to pipeline safety. Our customer awareness program, for instance, continues to educate rural customers and landowners about pipeline safety. Results are showing that the message has been well-received. TransGas projected zero pipeline contacts per 1,000 kilometres of pipeline last year, and had only one. On the distribution side of our business, SaskEnergy projected 3.5 contacts per 1,000 kilometres last year, but had only 2.05 contacts.

In 2000, our comprehensive awareness and visitation program allowed us to meet with 1,960 Saskatchewan residents – nearly double the previous year. We also broadened our mandate by meeting with landowners to



discuss the importance of first responders and the need to call for line locates prior to any construction.

While we visited nearly 150 towns, villages, and cities last year, TransGas also continued our Compressor Station open houses at Prud'homme, Melville, Coleville, Rosetown, Unity, and Beacon Hill. Led by local area staff, these information sessions were attended by first responders, contractors and local landowners, as well as municipality and town officials. Open houses were also held at Standing Buffalo, Kawakatoose, and Flying Dust First Nations communities, allowing local councils and residents an informal opportunity to discuss natural gas safety.

But our public awareness program was not limited to open houses and one-on-one visits. Twenty-nine presentations to provincial associations, such as the Saskatchewan Volunteer Firefighters Association, Saskatchewan Association of Rural Municipalities, and the Contractor Safety Awareness Association, helped us spread a down-to-earth safety message to thousands of Saskatchewan residents.

We also continued to perform transmission leak surveys and encroachment patrols. Employing local contractors, we performed walking, ATV, aircraft and helicopter patrols of our facilities throughout the province to inspect, identify, and report activities that may affect the safe operation of our system.

Excellence here and beyond

SaskEnergy's proactive policies to maintain operations in crisis situations have also been recognized worldwide.

In 2000, SaskEnergy employee Twyla Pateman received the IBM Business Continuity Practitioner of the Year Excellence Award, which is given to the individual who attained the year's most extraordinary business continuity accomplishment.

For the past three years, Twyla has developed an extensive business continuity model by working with SaskEnergy and TransGas staff, as well as external responders in Saskatchewan. Through Twyla's leadership and the efforts of our staff, we identified which business functions were most vulnerable, and which services and functions were less critical to our operations. By continually examining our existing plans, we can ensure the ongoing safe and reliable operation of our system.

When downward trends are a good thing

Efforts last year to raise customer awareness about pipeline safety have meant positive results in our distribution system. Though we have nearly 65,000 kilometres of pipeline in the ground, we're proud of the downward trend in line contacts made by external parties on SaskEnergy's system. Our spring campaign focused on working with our customers and local contractors to locate underground facilities. The results have been positive. In only four years, contacts have decreased from 3.64 per 1,000 kilometres of pipeline to 2.05, a reduction of 44%.

Information sessions, open houses and the addition of safety signs in high traffic locations in many First Nations communities have helped increase awareness of key safety messages and have contributed to our positive safety results.

In independent analysis, SaskEnergy's low number of pipeline contacts places us near the top quartile of Canadian and South American distribution companies. While ideally we would like to avoid public pipeline contacts entirely, we are proud of our record.

Line Contacts On Distribution System

	Line Contacts	Length of Pipeline System (km)	Line Contacts/ 1,000 km of Pipeline
1997	225	61,600	3.64
1998	244	63,000	3.87
1999	243	64,100	3.79
2000	133	64,800	2.05

By The Numbers

46: number of key isolation valves maintained, upgraded or installed to ensure distribution system safety and integrity

58: number of investigative inspections conducted in 2000 on eight different pipelines for corrosion, cracking, coating and pipe anomalies

66: number of new facility ground beds installed in our corrosion mitigation program

300: kilometres of pipeline inspected with electronic in-line tools

800: kilometres of TransGas pipeline surveyed to determine adequate cathodic protection coverage

1,239: number of TransGas line locates completed

1,562: number of rectifier sites inspected to ensure adequate ground bed facilities as part of our corrosion mitigation program

15,523: kilometres of distribution pipeline leak-surveyed

73,278: number of distribution services leak-surveyed as part of the leakage control program

129,031: number of SaskEnergy line locates completed to ensure customer and contractor safety

MANAGEMENT'S DISCUSSION & ANALYSIS

THIS DISCUSSION AND ANALYSIS IS A REVIEW OF THE STRATEGIC FINANCIAL DIRECTION, PERFORMANCE MEASUREMENT, RESULTS OF OPERATIONS, RISK FACTORS AND OUTLOOK OF SASKENERGY INCORPORATED AND ITS SUBSIDIARIES FOR THE YEAR ENDED DECEMBER 31, 2000. THIS DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES CONTAINED IN THIS ANNUAL REPORT.

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Consolidated - Key Financial Indicators	61

STRATEGIC FINANCIAL OVERVIEW

I. Crown Investments Corporation of Saskatchewan – Crown Sector Strategic Plan

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan Crown corporation and, for governance purposes, is considered a subsidiary of the Crown Investments Corporation of Saskatchewan (CIC). CIC, also a provincial Crown corporation, is the holding company for Saskatchewan's commercial Crown corporations.

In 1999, CIC and its subsidiaries developed a Crown Sector Strategic Plan to provide long-term direction to the Crown corporation sector, and facilitate long-term planning. The plan includes a uniform vision statement for the Crown sector, its primary business purposes, common business values and strategic business objectives. SaskEnergy has developed its Corporate Strategic Plan to support CIC's five overall strategic objectives: Customer Service Excellence, Financial Health, Mandate and Role, Public Purpose, and Human Resources.

The following is CIC's strategic objective contained in the Crown Sector Strategic Plan with regard to Financial Health:

"Position the entire Crown sector to prosper. Provide a return to the people of Saskatchewan that justifies the shareholder risk and investment in the overall sector."

II. SaskEnergy – Corporate Strategic Plan

SaskEnergy's Corporate Strategic Plan is designed to be aligned with CIC's Crown Sector Strategic Plan. In turn, SaskEnergy's strategic financial objectives support the objective on Financial Health as noted above.

SaskEnergy's Corporate Strategic Plan is based on the fundamental premise that its two major business units will be the primary drivers of the corporation's business. These two business units are the regulated natural gas Distribution Utility, owned and operated by SaskEnergy and the regulated natural gas Transmission Business owned and operated by its wholly-owned subsidiary, TransGas Limited (TransGas). The plan also recognizes that these two business units have been given a mandate to operate in a business-driven fashion, similar to other Canadian natural gas distribution and transmission utilities.

Based on the foregoing business environment, SaskEnergy's two primary strategic financial objectives are to:

a) Provide competitive returns to the owner, and
b) Provide competitive rates to customers.

III. The Balanced Scorecard – Financial Targets

In order to measure SaskEnergy's performance in achieving its Corporate Strategic Plan, the corporation has introduced a process referred to as the Balanced Scorecard. The corporation can use this process to compare its results against the targets established in the Balanced Scorecard. The financial targets included in the Balanced Scorecard are designed to measure the success in achieving the two strategic financial objectives. These financial targets are based on the standard financial performance measures for regulated Canadian natural gas utilities.

SaskEnergy Incorporated
The Balanced Scorecard – Financial Targets

Objectives for 2000	Measures	1999 Results	2000 Target	2000 Results
1. Provide competitive returns to the owner	i) Regulated Return on Equity:			
	- Distribution Utility	3.3%	12%	4.5%
	- Transmission Business	17.2%	15.1%	14.2%
	ii) Debt-to-Equity Ratio:			
	- Distribution Utility	75/25	73/27	60/40
	- Transmission Business	70/30	68/32	68/32
	iii) Consolidated Net Income (millions)	$37	$49	$44
	iv) Dividend to CIC (millions)	$20	$27	$24
2. Provide competitive rates to customers	Distribution Utility - Lowest or second lowest commodity rates in Canada	second lowest	lowest	lowest
	Transmission Business - Implement a two-year rate freeze on transmission rates	2.9% rate increase	no rate increase	no rate increase

The following is a discussion of the objectives listed above in the Balanced Scorecard:

a) **Provide competitive returns to the owner**

i) Regulated Return on Equity

Return on equity is a primary measure of profitability for a regulated natural gas utility. The return on equity for natural gas distribution and transmission utilities in Canada is in the range of 9.25 percent to 13 percent. Although a regulator most commonly sets these returns, the returns can vary for a number of reasons. For example, a utility can increase its return on equity by establishing a performance-based agreement with its regulator. In addition, large new transmission pipelines have been awarded a higher than average return on equity due to such factors as construction risk.

The long-term regulated return on equity target for both the corporation's Distribution Utility and Transmission Business is 12 percent.

ii) Debt-to-Equity Ratio

Each regulated natural gas utility in Canada has a target capital structure that provides for a theoretically optimum balance between the debt and equity needed to finance the purchase of assets. The capital structure is also intended to reflect the relative risk inherent in the business of each utility. Generally, in Canada, a typical capital structure for a regulated natural gas utility consists of 60 percent to 65 percent debt and 40 percent to 35 percent equity.

For regulatory purposes, the Distribution Utility has a long-term capital structure target for regulatory purposes of 60 percent debt and 40 percent equity. Similarly, the Transmission Business has a long-term capital structure target of 65 percent debt and 35 percent equity.

iii) Consolidated Net Income

SaskEnergy operates both regulated and non-regulated businesses. The majority of the consolidated net income is produced from the two regulated business units. The net income of the two business units is primarily dependent upon the level of return on equity and capital structure as allowed by the Government of Saskatchewan.

iv) Dividend

In 1998, CIC established a dividend policy for all the Crown corporations within its purview. In accordance with this policy, SaskEnergy's level of dividend is set at 55 percent of consolidated net income until the corporation reaches its consolidated debt-to-equity target of 65 percent debt and 35 percent equity. The corporation is expected to achieve its target consolidated debt-to-equity ratio by 2003.

b. **Provide competitive rates to customers**

i) Distribution Utility

The target for the Distribution Utility is to have the lowest commodity rates in Canada (i.e. the rate charged for just the natural gas itself). During 1999 and 2000, through a Gas Price Hedging Program (see note 11a on page 76 to the Consolidated Financial Statements), the Distribution Utility was able to lock in prices for natural gas that were lower than those offered by regulated natural gas distribution utilities in other provinces.

ii) Transmission Business

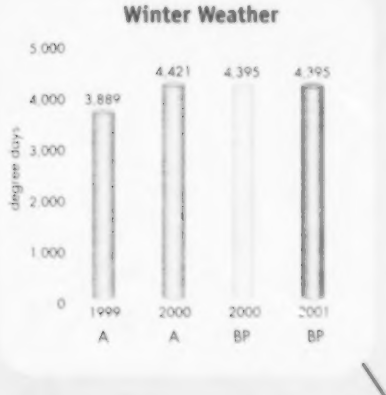
In order to maintain its competitive position with Alberta, the Transmission Business strategy is to achieve long-term rate stability. This strategy was implemented in September 1999 with the decision that TransGas would not increase transmission rates for 2000 or 2001.

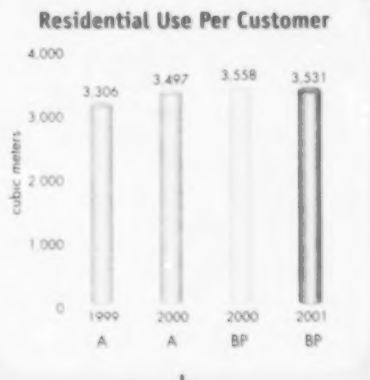
IV. Results of Operations for 2000

The following is a review of the financial results for 2000 segregated into a discussion of each of the two major business units, the subsidiaries and the consolidated entity. The two major business units are the Distribution Utility referred to as the Local Distribution Company (LDC) and the Transmission Business (TransGas Limited).

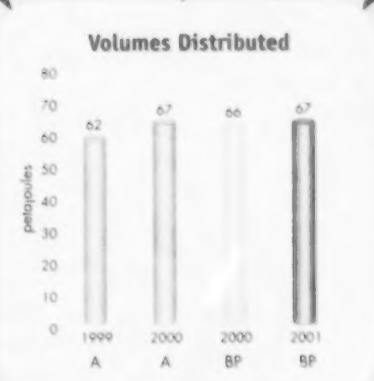
A. Local Distribution Company (LDC)
Key Operational Performance Measures

This section should be read in conjunction with the Consolidated Financial Statements and the accompanying notes.





Volumes distributed are primarily impacted by winter weather. During 2000, volumes distributed totaled 67 **petajoules**, reflecting a **5-petajoule** (8 percent) increase over 1999. The 2000 heating load season was 1 percent colder than normal, whereas 1999 was 8 percent warmer than normal.

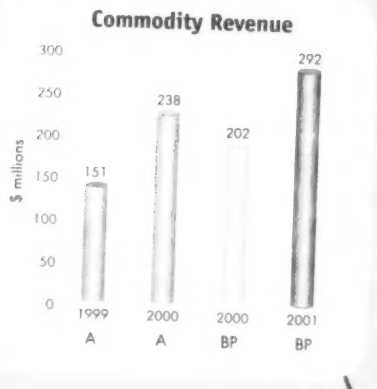


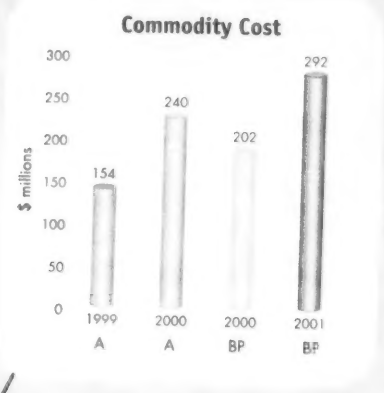
The increased volumes from colder than normal weather were partially offset by lower use per residential customer which declined by almost 2 percent from the 2000 Business Plan due to weather fluctuation, consumer energy conservation and the improvement in the efficiency of heating equipment.

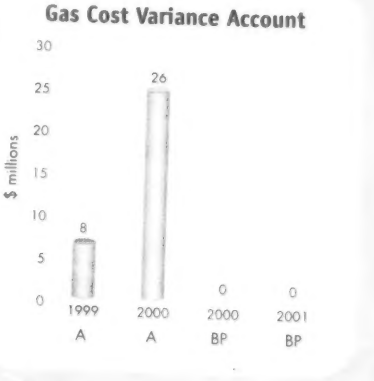
A=Actual BP=Business Plan

LDC Commodity Revenue & Cost of Gas

The Commodity Revenue is the revenue received from customers for their natural gas consumption, and the Cost of Gas is the price paid by the Corporation to secure gas.







Natural gas commodity costs are intended to be recovered by commodity sales revenues such that neither a gain nor a loss is realized on commodity transactions. However, commodity costs exceeded commodity revenue during 2000 by $2 million, due to the Saskatchewan Rate Review Panel recommendation that gas-in-storage carrying costs not be recovered in the commodity selling price for the period November 1, 1999 to October 31, 2000.

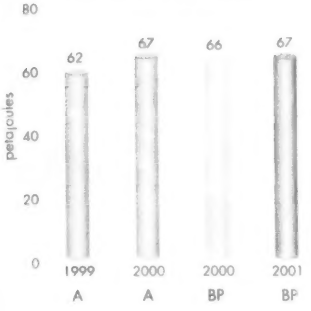
A Gas Cost Variance Account (GCVA) is used to accumulate any differences between the cost of purchasing gas and the commodity rate charged to customers. As at December 31, 2000 there was $26 million in unrecovered gas costs in the GCVA. A delay in implementing a 2000/2001 commodity rate increase from November 1, 2000 to December 1, 2000 accounts for $12 million, while the remaining $14 million reflects higher than forecast costs for acquiring natural gas supplies.

A=Actual BP=Business Plan

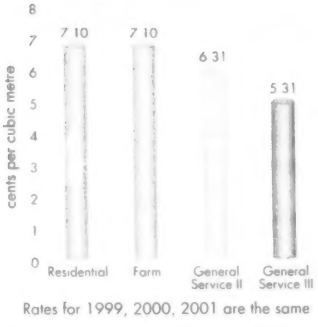
LDC Delivery Revenue

The Delivery Revenue is the income received from customers for delivering natural gas to their premises.

Volumes Distributed

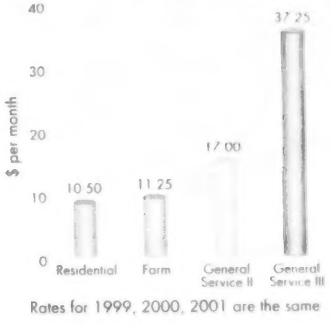


Rate Per Unit Sold



Rates for 1999, 2000, 2001 are the same

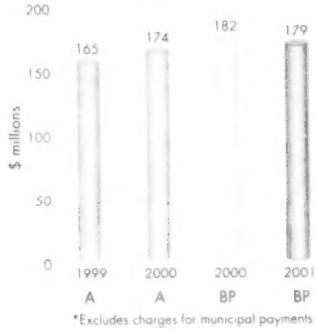
Basic Monthly Charge



Rates for 1999, 2000, 2001 are the same

Delivery Revenue was $9 million higher in 2000 than 1999 due to the increased volumes distributed. Despite achieving the volumes anticipated in the Business Plan, Delivery Revenue was down $8 million from the 2000 Business Plan target. The Business Plan assumed that a delivery service rate increase would be implemented in 2000 to cover an increase in the delivery cost of service. However, this rate increase was not implemented. The 2001 Business Plan assumed a separate 2.4 percent rate increase which was not approved.

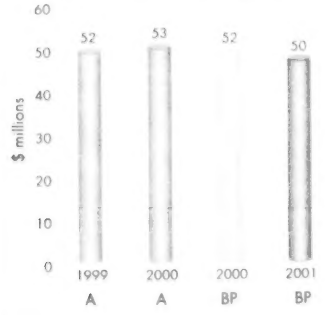
Delivery Revenue*



*Excludes charges for municipal payments

LDC Delivery Transportation & Storage Expense

Transportation & Storage Expense



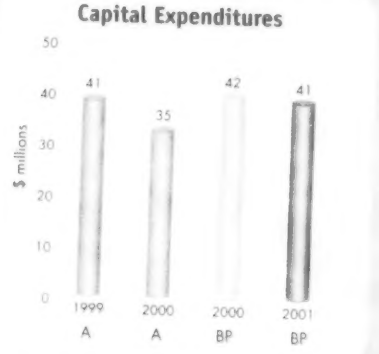
The cost of transporting purchased gas to the distribution system was $1 million higher in 2000 than in 1999. The colder weather during 2000 required contracting additional transport capacity from TransGas to move gas from storage. Continued refinement in forecasting peak requirements for the coldest day is expected to result in the need to contract less transport capacity, and will result in lower transport costs in the future, as noted by the forecast reduction in the 2001 expense.

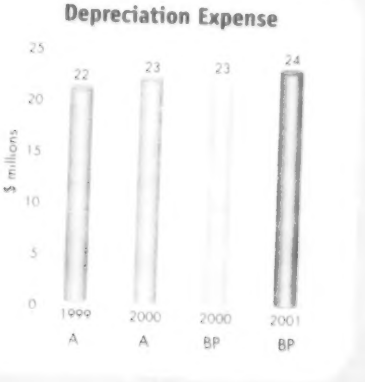
A=Actual BP=Business Plan

LDC – Operating & Maintenance Expense

Despite efforts to control costs, operating and maintenance expenses were up $4 million from 1999. Cost pressures occurred for materials and supplies, vehicle fuel and maintenance, information systems processing, and the cost of natural gas used internally as well as labour costs. These pressures are expected to continue into 2001.

LDC – Capital Expenditures & Depreciation Expense



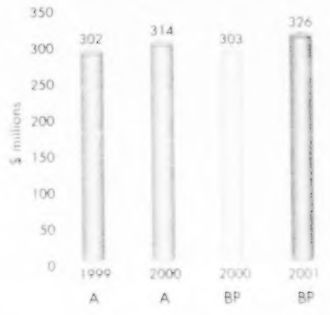


Capital expenditures totaled $35 million for 2000 compared to $41 million in 1999. Capital expenditures were primarily in the areas of new customer connections and system improvements. In 2000, there were 3,121 new customer additions compared to 3,784 in 1999. Urban growth was strong but rural customer growth did not meet expectations. The 2000 Business Plan had anticipated 4,000 new customers from the gasification of several First Nations communities, resorts, as well as continued growth in the conversion of farms to natural gas.

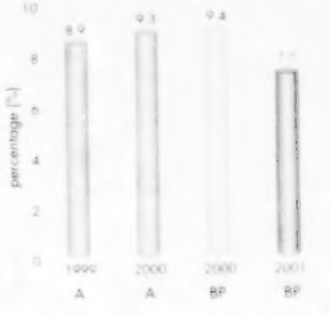
The $1 million increase in depreciation expense from 1999 was the result of the increase in the asset base in both 1999 and 2000.

A=Actual BP=Business Plan

LDC Interest Expense



Refinancing of long-term debt, which matures in 2001 at significantly lower interest rates than the current debt issues, will result in average interest rates about 2 percent lower for 2001. This will result in a reduction of approximately $4 million in interest expense for 2001. The interest cost savings will be reflected in lower delivery cost pressures.

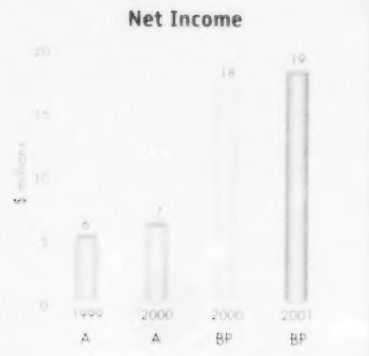


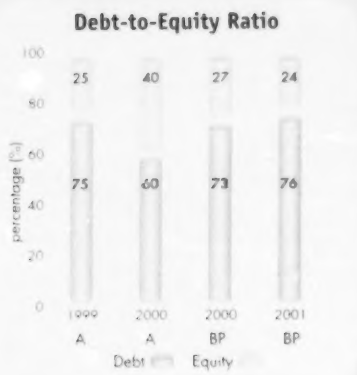
LDC Saskatchewan Taxes

The LDC pays corporate capital tax to the Province of Saskatchewan and has a legislated obligation to pay 109 urban municipalities a payment in-lieu-of taxes. Municipal payments are recovered as a charge on the customer bills and are calculated as a percentage of total delivery and commodity sales revenue. These payments amounted to $13 million in 2000, and are forecasted at $16 million for 2001, reflective of higher gas costs.

A=Actual BP=Business Plan

LDC Key Financial Indicators





Net income from the LDC's operations in 2000 was $7 million compared to $6 million in 1999. The anticipated rate increase for 2000 to cover an increase in the cost of service was not approved. Year 2000 earnings of $7 million reflect a rate of return on equity of 4.4 percent. The Business Plan net income target for 2000 was $18 million and a 12 percent return on equity.

The Business Plan for 2001 anticipates a net income of $19 million and a return on equity of 12 percent.

Achieving these financial results assumes normal weather during the winter heating load season to achieve the planned volumes.

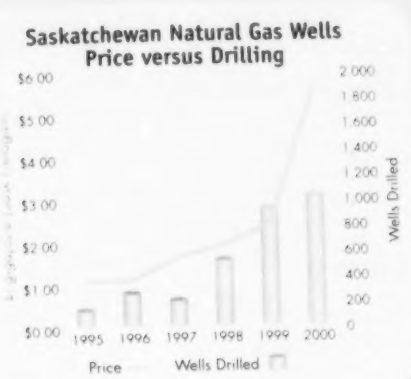
An internal capital reorganization was implemented on December 31, 2000 to establish a 60/40 debt-to-equity ratio for the LDC. This debt-to-equity ratio is generally determined to be optimum for regulated Canadian natural gas distribution utilities of similar risk.

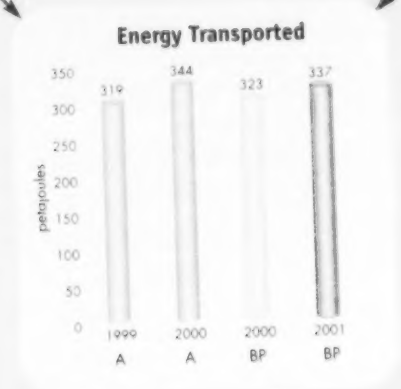
A=Actual BP=Business Plan

B. Transmission Business (TransGas Limited)

Key Operational Performance Measures

This section should be read in conjunction with the Consolidated Financial Statements and the accompanying notes.





The key operating measure impacting the financial results of TransGas is the amount of natural gas (energy) transported on the transmission pipeline system. The level of energy transported is primarily receipts driven. Therefore maximizing the level of energy received onto the system is a key business objective.

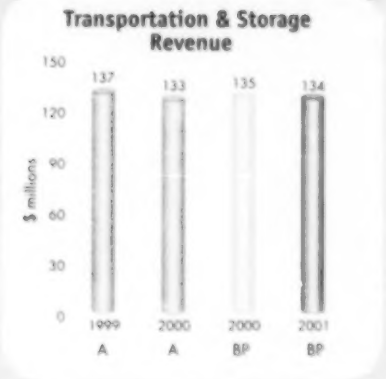
The two main sources of receipts are Saskatchewan natural gas production and natural gas flowing from Alberta. Natural gas is also transported from the United States (Montana) through the Many Islands Pipe Lines (Canada) Limited (MIP(C)L) pipeline system.

Energy transported in 2000 was 8 percent higher than 1999 and 6 percent greater than the 2000 Business Plan. Record high natural gas prices in 2000 triggered record natural gas drilling in Saskatchewan, resulting in a 3 percent increase in Saskatchewan natural gas production over 1999 and matching 2000 Business Plan targeted levels. Energy flows from Alberta were comparable to 1999, while U.S. natural gas flows increased in 2000.

The outlook for 2001 is positive with the expectation of continued strong natural gas production in Saskatchewan.

A=Actual BP=Business Plan

TransGas – Transportation & Storage Revenue



The revenue levels for TransGas are determined mainly by the amount of fixed contracted transportation capacity by its customers, referred to as "contracted firm demand." The two main categories of contracted firm demand are receipt and delivery.

Receipt- Natural gas received at various points within Saskatchewan or at the Alberta or United States border. Customers are mainly producers, natural gas brokers, marketers and the LDC.

Delivery-Natural gas delivered to various points within Saskatchewan and interconnecting points with other pipelines. The main customer categories are:

a) Intra - larger end use industrial users within Saskatchewan.

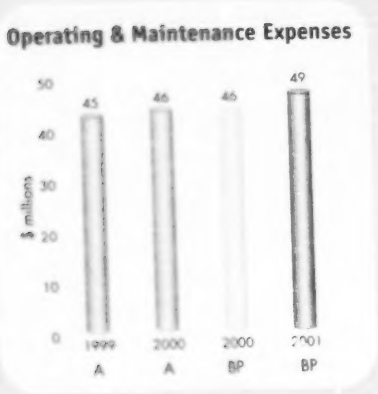
b) Export - mainly gas producers, marketers and brokers delivering at interconnecting points for export to eastern markets.

c) LDC - SaskEnergy natural gas distribution within the province.

Transportation and storage revenue for 2000 was $133 million, which was 3 percent lower than the 1999 level. The marginal decline in transportation revenue was in the receipt and export categories, attributable to customers more efficiently utilizing existing contracted firm demand. The outlook for the receipt and export revenue levels is optimistic in 2001 as higher Saskatchewan natural gas drilling and production levels are expected to result in additional contracting. The LDC and intra-markets have been relatively stable, and are anticipated to remain strong.

A–Actual BP–Business Plan

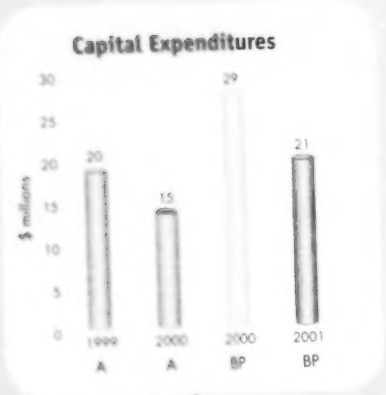
TransGas – Operating & Maintenance Expenses



Operating and maintenance expenses approximated 2000 Business Plan levels and were 2 percent higher than 1999. Continued efforts in containing costs were offset slightly by higher costs, due to general inflationary increases and higher energy costs.

Operating and Maintenance costs for 2001 are expected to exceed 2000 levels. The main drivers of this increase are third-party transportation costs, and planned maintenance overhauls of certain compressor stations.

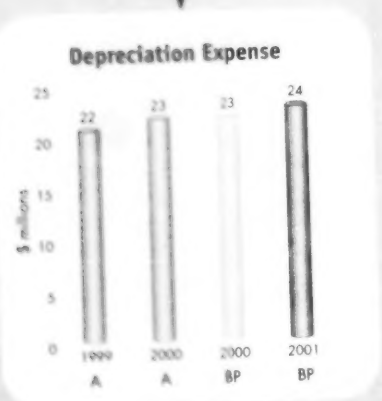
TransGas – Capital Expenditures & Depreciation Expense



Capital additions amounted to $15 million in 2000 ($20 million in 1999), consisting mainly of system improvements, customer connections and supporting infrastructure.

Lower capital expenditures in 2000 were the result of a number of projects being deferred.

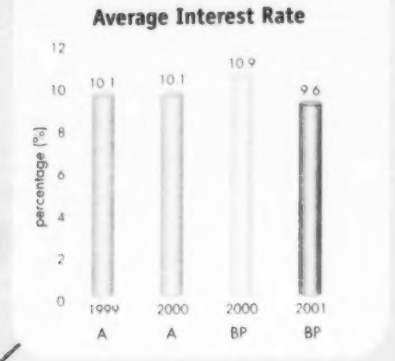
The 2000 Business Plan anticipated a storage development project and a higher level of customer connections which did not materialize.



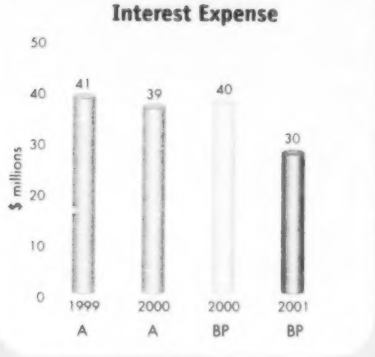
The $1 million increase in depreciation expense from 1999 was the result of the increase in the asset base in both 1999 and 2000.

A=Actual BP=Business Plan

TransGas Interest Expense



Interest expense of $39 million was $2 million less than 1999, resulting from overall higher cash balances in 2000. Higher net income and lower capital expenditures in 2000 contributed to an increase in cash balances.



Interest expense will decline by almost 25 percent in 2001, resulting from a repayment of $76 million of long-term debt and refinancing of $80 million of long-term debt at a significantly lower interest rate.

TransGas – Saskatchewan Taxes

The TransGas Saskatchewan taxes expense for 2000 included municipal payments (grants in-lieu-of taxes), royalties and corporate capital tax. TransGas pays royalties to the province based on the volume of production from a storage facility.

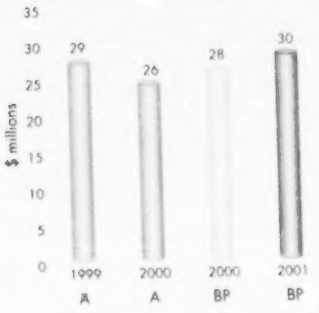
Saskatchewan taxes in 2000 were $3 million greater than 1999, mainly due to higher royalties associated with increased production from storage fields in west central Saskatchewan. Higher natural gas prices also contributed to the increased royalty expense.

Payments to municipalities of $5 million in 2000 and $3.5 million in 1999 were included in the Saskatchewan taxes account. In accordance with legislation, TransGas is required to collect from certain customers an amount based on the value of natural gas transported. The amounts collected are then paid to certain urban municipalities. The payment in 2000 exceeded 1999 by $1.5 million, mainly because of higher natural gas prices.

A–Actual BP–Business Plan

TransGas – Key Financial Performance Indicators

Net Income - Regulated*



*Excludes non-regulated business activities.

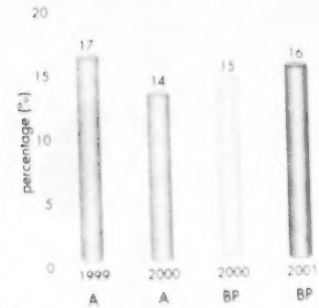
TransGas combined regulated and non-regulated net income was $34 million, exceeding 1999 by $3 million, and the 2000 Business Plan by $5 million.

The increase in net income was mainly attributable to revenue earned from the partial divestiture of natural gas from a storage facility in west central Saskatchewan.

TransGas regulated net income for 2000 was $26 million, which declined by $3 million from 1999 regulated net income, and $2 million below 2000 Business Plan regulated net income. The reason for this decline was the lower export transportation revenue in 2000.

Regulated net income for 2001 is expected to be $4 million higher than 2000, resulting from lower interest costs.

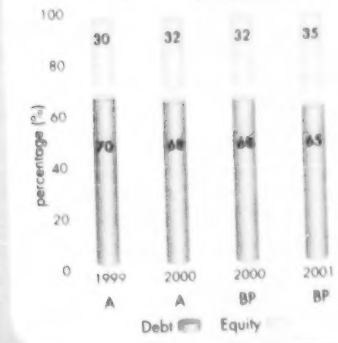
Return on Equity - Regulated*



*Excludes non-regulated business activities.

Return on equity from the regulated business was 14 percent in 2000, lower than 1999 by 3 percent (1 percent lower than 2000 Business Plan), coinciding with a lower regulated net income in 2000.

Debt-to-Equity Ratio



TransGas met the 2000 debt-to-equity target of 68 percent debt and 32 percent equity. In 2001, TransGas is expected to achieve its long-term target of 65 percent debt and 35 percent equity with the repayment of $76 million of long-term debt.

A=Actual BP=Business Plan

C. Subsidiaries

In addition to TransGas Limited, SaskEnergy also owns four other wholly-owned subsidiaries. The financial results of these subsidiaries are discussed below:

1. Many Islands Pipe Lines (Canada) Limited (MIP(C)L)

   MIP(C)L owns and operates the following pipelines:

   a) 11 pipeline interconnections between Saskatchewan and Alberta.
   b) A pipeline that runs from the United States border to an interconnecting point with TransCanada PipeLines at Herbert, Saskatchewan.
   c) A pipeline to the United States from southeastern Saskatchewan.
   d) In 2000, MIP(C)L constructed a pipeline from Norquay, Saskatchewan into Manitoba, interconnecting with Swan Valley Gas Corporation to provide natural gas to the nearby Manitoba communities.

   MIP(C)L's net income was $1 million in 2000 (1999 net income was $1 million) on revenues of $4 million (1999 revenue was $4 million).

2. SaskEnergy International Incorporated (SEII)

   SEII was created in 1996 to market SaskEnergy's world-class expertise and investigate opportunities to invest in emerging natural gas distribution, transmission and storage systems.

   SEII's primary focus is Latin America, one of the fastest growing natural gas markets in the world. In addition to its consulting activities, SEII holds a 15 percent equity investment in Gas Sur S.A., a natural gas distribution company in Chile.

   During 2000, SEII incurred a loss of $1 million (1999 loss of $1 million) on revenues of $0.2 million (1999 revenue of $0.1 million).

3. Bayhurst Gas Limited (Bayhurst)

   Bayhurst owns a gross overriding royalty on approximately 500 properties located in Saskatchewan and Alberta. The amount of revenue received is directly related to the sales prices and volumes of natural gas produced from these properties.

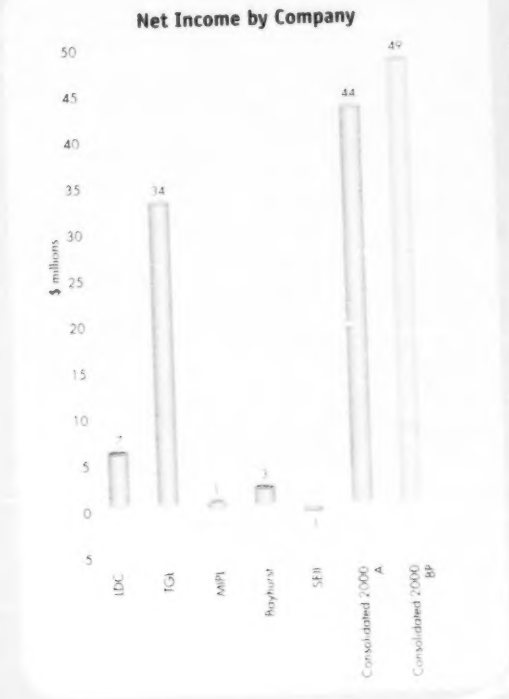
   Bayhurst's net income was $3 million in 2000 (1999 net income was $2 million) on revenues of $4 million ($3 million revenue for 1999).

4. Swan Valley Gas Corporation (SVGC)

SVGC was formed in 2000 to own and operate a natural gas distribution utility in the Swan Valley area in western Manitoba. Construction commenced in the fall, and natural gas started flowing to customers in December 2000. Capital investment in the SVGC distribution facilities for 2000 was $4.4 million.

D. Consolidated – Key Financial Indicators

This section should be read in conjunction with the Consolidated Financial Statements and the accompanying notes.



Net income of $44 million was higher in 2000 compared to 1999 due to increased revenue from Bayhurst's royalty interest on properties located in Saskatchewan and Alberta, plus TransGas' gain from the partial divestiture of natural gas from a storage facility in west central Saskatchewan. Net income was less than the 2000 Business Plan, as the proposed delivery rate increase for the LDC was not implemented, and TransGas export and receipt revenue were lower than budget.

The regulated return on equity (ROE) for 2000 was 8.4 percent, compared to 12 percent in the Business Plan. The decrease was primarily due to a delivery rate increase for 2000 that was not implemented.

SaskEnergy met its consolidated debt-to-equity target of 70 percent debt and 30 percent equity for 2000. In 2001 SaskEnergy anticipates strengthening its debt-to-equity ratio to 68 percent debt and 32 percent equity.

A=Actual BP=Business Plan

V. Business Risks

The corporation's earnings are impacted by business risks inherent in the natural gas utility industry and energy marketplace. The earnings level is impacted by general economic conditions, weather, interest rates, commodity prices and regulation. The following discusses the most significant business risks facing the corporation and its associated risk management programs.

a) Natural Gas Price Hedging Program

SaskEnergy provides a service to its customers whereby it purchases natural gas in the open market and then sells this gas to its customers at cost. The corporation operates on the principle that it neither makes a profit nor incurs a loss on selling natural gas to its customers. This is similar to the practice of natural gas utilities in Canada.

With regard to these natural gas sales, SaskEnergy's objective is to provide price stability to customers. However, it is difficult to achieve this objective in an environment where the purchase price of natural gas is constantly fluctuating. Therefore, the corporation developed a Gas Price Hedging Program so it can lock in its purchase prices and then offer a fixed rate to its customers. Prices can be locked in through the use of financial instruments such as swaps and options.

Generally, prices for natural gas have been rising over the past three years. In a rising price environment, the hedging strategy has enabled SaskEnergy to achieve a purchase price that is below market, passing on significant savings to its customers. Through this hedging program, SaskEnergy saved its customers approximately $74 million in natural gas costs in 2000.

When the new gas year commenced on November 1, 2000, SaskEnergy did not take advantage of any potential price decline, because of market uncertainty and extremely high prices. As SaskEnergy's rates are designed to recover the cost of the natural gas, any differences between the rates charged to customers, as forecasted, and the actual costs incurred, will be recovered from or refunded to customers. These differences are being tracked in a newly established Gas Cost Variance Account. The balance in this account will be carried forward and added to, or deducted from, the forecast cost of gas in SaskEnergy's next commodity rate application. As at December 31, 2000 the balance in the Gas Cost Variance Account was $26 million, and therefore this amount will be recovered from customers in future rates (see note 4 on page 73 to the Consolidated Financial Statements).

b) Interest Rate Risk Management

SaskEnergy has developed an interest rate hedging strategy designed to manage the exposure to rising interest rates. The strategy utilizes financial instruments such as interest rate swaps, forward rate agreements, and interest rate options to hedge the rate on new borrowings in advance of their actual issue.

As at December 31, 2000, SaskEnergy had approximately $767 million of long-term debt owing to the Province of Saskatchewan's General Revenue Fund. This debt consists of 29 individual loans with specific maturity dates. In 2001, a total of $273 million of debt is due for repayment. This debt consists of a $50 million debenture maturing on January 9, 2001 and $222.9 million of debt to be called on March 30, 2001. The

average interest rate on these debentures is approximately 12 percent. Through a series of interest rates swaps initiated in 1994, SaskEnergy has effectively hedged the interest rate on this debt at an average interest rate of 6.75 percent through to 2011.

c) Foreign Exchange

During 2000, SaskEnergy was affected by changes in the value of the Canadian dollar relative to the United States dollar for the procurement of natural gas and capital equipment purchases denominated in United States dollars. To manage the impact of changes in the value of the Canadian to the United States dollar, SaskEnergy has implemented a program to hedge its exposure through the use of financial instruments such as forward contracts and currency options. At the end of 2000, SaskEnergy did not have any such instruments outstanding.

VI. Regulatory

In July 1999, the Saskatchewan Government established the Saskatchewan Interim Rate Review Panel to act as an advisor to Cabinet in reviewing rate applications from certain Crown corporations. In October 1999, SaskEnergy submitted a commodity rate application to the Panel for review. This rate application applied to commodity rates for the period November 1, 1999 to October 31, 2000. The Panel recommended that the commodity rate be approved, except for certain modifications. On December 14, 1999, Cabinet approved the rates as recommended by the Panel. The mandate of this Panel ended on July 31, 2000.

On July 27, 2000, by Minister's Order, the Saskatchewan Government established the Saskatchewan Rate Review Panel. The mandate of this Panel is to advise Cabinet in reviewing rate applications from Crown corporations.

In October 2000, SaskEnergy submitted two rate applications to the Panel. One was for an increase in rates for delivery service. The other was for an increase in commodity rates. The Panel recommended that the delivery rate increase be disallowed, and that the commodity rate increase be approved, but with certain modifications. The commodity rates, as approved by Cabinet, were designed to recover the forecasted cost of gas over the period December 1, 2000 to October 31, 2001.

VII. Outlook

SaskEnergy's vision is to become Canada's leading energy company by anticipating its customers' changing needs and providing innovative and responsive solutions.

The corporation continues to have many unique strategic advantages in achieving this goal. Among these are a highly experienced, low-turnover workforce, successful gas procurement practices, a safe and reliable system, and a successful community-supported business model. Financially, the corporation is well positioned within its regulated business units to continue delivering both competitive rates to customers, and competitive returns to shareholders.

The non-regulated portion of the business will continue to experience steady growth in alignment with the company's core competencies in natural gas distribution, transmission and storage. Growth will also enhance the technical capabilities of the workforce, while improving financial performance and strengthening the province's economy.

Volatility and historically-high natural gas prices present both an opportunity and a challenge to SaskEnergy. High prices should continue to stimulate new drilling and Saskatchewan production, while providing new opportunities to maximize the usage of the TransGas pipeline system. While high prices will continue to be a challenge to consumers, SaskEnergy expects that the overall competitiveness and convenierce of natural gas will continue to drive new connections to its network. Moreover, the corporation's gas price-hedging strategies are expected to shield customers from the most volatile impacts of the market.

Overall, SaskEnergy and TransGas are well positioned to capitalize on their strategic objectives, deliver world-class service to their customers, and provide strong returns to the owner in an increasingly competitive energy market. As environmental responsibility grows and more customers seek the lifestyle convenience of natural gas, the corporation and its employees will be well positioned for the future.

Communicating these positive messages to customers will help build a strong foundation for our future, and mitigate some of the negative publicity which the natural gas commodity has received. We feel confident that by encouraging customers to take a closer look at SaskEnergy, its employees and its operations, we can achieve our prime business objective to be Canada's leading energy company.

CONSOLIDATED FINANCIAL STATEMENTS

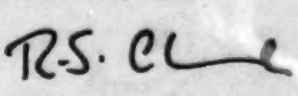
Management's Responsibility for Financial Statements

The management of SaskEnergy Incorporated is responsible for the integrity of the accompanying consolidated financial statements and all other information contained in this annual report. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada, and are applied on a consistent basis. Preparation of financial statements necessarily includes the use of estimates as certain transactions are dependent upon future events. These estimates have been subjected to careful consideration by management.

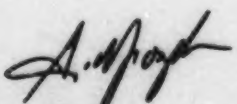
The Corporation's Board of Directors is responsible for overseeing the business and affairs of the Corporation and for approving the annual financial statements. The Board of Directors has delegated certain responsibilities to its Audit and Finance Committee, including the responsibility for reviewing the annual financial statements and meeting with management, internal auditors and external auditors on matters relating to the financial reporting process.

Management maintains a system of internal controls to ensure the integrity of information that forms the basis of the financial statements. The internal control systems provide reasonable assurance that transactions are executed in accordance with proper authorization, that assets are properly guarded against unauthorized use and that reliable records are maintained.

The consolidated financial statements have been audited by Ernst & Young LLP, Chartered Accountants as appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan. The Auditors' Report, which appears on the next page, expresses their opinion on the fairness of the financial statements prepared by management.



Ronald S. Clark
President & Chief Executive Officer



Greg Mrazek
Vice President, Finance & Administration

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of SaskEnergy Incorporated as at December 31, 2000 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP
Chartered Accountants

Regina, Canada
February 5, 2001

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31

	Note	2000	1999
		(thousands)	
ASSETS			
CURRENT ASSETS			
Cash		$ 1,176	$ -
Accounts receivable		152,874	79,412
Natural gas in storage	3	37,431	49,684
Inventories of supplies		5,057	6,403
		196,538	135,499
GAS COST VARIANCE ACCOUNT	4	26,068	7,542
NATURAL GAS IN STORAGE	3	32,249	38,781
CAPITAL ASSETS	5	1,010,476	1,000,112
LONG-TERM INVESTMENT	6	7,493	5,027
DEFERRED CHARGES	7	7,840	2,412
TOTAL ASSETS		$ 1,280,664	$ 1,189,373
LIABILITIES AND PROVINCE'S EQUITY			
CURRENT LIABILITIES			
Bank indebtedness		$ -	$ 2,020
Short-term indebtedness	8	-	38,800
Accounts payable		153,169	75,885
Dividend payable		7,410	7,474
Current portion of long-term debt	8	50,000	-
		210,579	124,179
CUSTOMER CAPITAL CONTRIBUTIONS	9	94,716	85,509
LONG-TERM DEBT	8	667,492	691,832
TOTAL LIABILITIES		972,787	901,520
PROVINCE OF SASKATCHEWAN'S EQUITY			
Equity advances	10	71,531	71,531
Retained earnings		236,346	216,322
TOTAL EQUITY		307,877	287,853
		$ 1,280,664	$ 1,189,373
COMMITMENTS & CONTINGENCIES	11,6		

(See accompanying notes)

On behalf of the Board:

_____, Director _____, Director

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

	Note	2000	1999
		(thousands)	
REVENUE			
Distribution		$ 417,807	$ 318,358
Cost of gas sold		232,153	147,512
Distribution margin		185,654	170,846
Transportation and storage		73,507	75,915
Net sales from gas brokering	12	17,509	12,830
Other		9,061	6,713
Net revenue		285,731	266,304
EXPENSES			
Operating and maintenance		99,581	95,042
Interest	8	66,630	66,911
Amortization of capital assets		46,914	45,271
Saskatchewan taxes and royalties	13	28,182	22,482
Total expenses		241,307	229,706
Net earnings		44,424	36,598
Retained earnings, beginning of year		216,322	199,853
Dividend		(24,400)	(20,129)
Retained earnings, end of year		$ 236,346	$ 216,322

(See accompanying notes)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31

	Note	2000	1999
		(thousands)	
OPERATING ACTIVITIES			
Net earnings		$ 44,424	$ 36,598
Add (deduct) items not requiring an outlay of cash			
Amortization of capital assets		46,914	45,271
Amortization of customer capital contributions		(2,354)	(2,023)
Other non-cash items		2,456	1,086
		91,440	80,932
Net change in non-cash working capital related to operations	14	(1,105)	(15,628)
Cash provided by operating activities		90,335	65,304
INVESTING ACTIVITIES			
Additions to capital assets		(57,875)	(61,293)
Customer capital contributions received		11,561	11,709
Decrease in natural gas in storage (non-current)		6,532	5,288
Long-term investment		(2,466)	(5,027)
(Additions to) deductions from deferred charges		(7,287)	36
Cash used in investing activities		(49,535)	(49,287)
FINANCING ACTIVITIES			
Decrease in short-term indebtedness		(38,800)	(18,000)
Increase in long-term debt		25,660	16,839
Dividend paid		(24,464)	(17,598)
Cash used in financing activities		(37,604)	(18,759)
INCREASE (DECREASE) IN CASH during year		3,196	(2,742)
CASH POSITION, beginning of year		(2,020)	722
CASH POSITION, end of year		$ 1,176	$ (2,020)

Cash position consists of cash less bank indebtedness.

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2000

1. STATUS OF THE CORPORATION

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of **The SaskEnergy Act**. SaskEnergy transports, stores and distributes natural gas in Saskatchewan.

By virtue of **The Crown Corporations Act, 1993**, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan, a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of Crown Investments Corporation of Saskatchewan.

As a provincial Crown corporation, SaskEnergy and its wholly-owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, TransGas Limited, Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited, SaskEnergy International Incorporated, Swan Valley Gas Corporation, SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd. In addition, the accounts also include the Corporation's 100 percent ownership interest in SaskEnergy Chilean Holdings Limitada – a Chilean limited partnership. Separate audited financial statements are prepared for each of these entities.

b. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or replacement cost.

c. Natural gas in storage

Natural gas in storage is stated at the lower of cost or net realizable value.

d. Capital assets

Capital assets are stated at cost and include all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major capital asset, or class of capital assets, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Other retirements of capital assets are recorded by reducing the asset account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in percent)

Transmission and storage	2.5 to 2.6
Distribution	2.5 to 3.5
Gathering, treatment and compression	2.5 to 3.5
Vehicles, equipment and other	2.5 to 50.0

The royalty interest in certain natural gas wells is amortized on the unit of production method.

e. Customer capital contributions

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

f. Revenue recognition

Distribution revenue is recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed, is included in revenue.

Transportation and storage revenue is recognized when transportation, transportation related services and storage are provided to customers. An estimate of transportation, storage revenue and related services rendered, but not billed, is included in revenue.

g. Cost of gas sold

Cost of gas sold is recorded based on the forecast cost of natural gas included in customer rates as recommended by the Saskatchewan Rate Review Panel (SRRP). The differences between the recorded cost of gas sold and costs actually incurred are deferred and accumulated in a Gas Cost Variance Account (GCVA). The actual cost of gas can differ from the forecast primarily due to natural gas market price variations from forecast caused by warmer or colder than normal winter weather. The balance in the GCVA is subsequently refunded to or collected from customers through inclusion in future rates as recommended by the SRRP.

h. Long-term investment

The corporation accounts for its investment in Gas Sur S.A. by the cost method.

i. Deferred charges

Effective January 1, 2000, the cost of future benefits earned by employees is actuarially determined using the projected benefit method and management's best estimates. Past service costs are amortized on a straight-line basis over the average remaining service period of active employees.

3. NATURAL GAS IN STORAGE

a. Natural gas in storage classified as a current asset has been purchased for the purpose of resale.

b. Natural gas in storage classified as a non-current asset is located within the Corporation's various storage facilities and is required for the ongoing operations of the storage facilities.

c. The Corporation has natural gas reserves that are fully amortized. A portion of these reserves were sold in 2000.

4. GAS COST VARIANCE ACCOUNT

The Saskatchewan Rate Review Panel recommended that SaskEnergy establish a Gas Cost Variance Account (GCVA) to accumulate differences between forecast and actual gas commodity costs, and that if, at March 31, 2001, the GVA balance exceeds $20 million (surplus or deficit), SaskEnergy be allowed to apply for a rate change. The GCVA, as at December 31, includes natural gas costs to be recovered from customers as follows:

	2000	1999
	(thousands)	
Balance, beginning of year	$ 7,542	$ -
Increases		
Higher than forecast natural gas purchase prices	17,571	280
Retail rate increase delay	12,327	4,641
Other	(6,386)	3,124
Recovered in rates charged to customers	(4,986)	(503)
Balance, end of year	$ 26,068	$ 7,542

5. CAPITAL ASSETS

	2000			1999		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission and storage	$ 547,551	$ 117,172	$ 430,379	$ 533,257	$ 102,670	$ 430,587
Distribution	520,306	111,702	408,604	497,369	97,807	399,562
Gathering, treatment and compression	149,820	43,089	106,731	145,281	37,640	107,641
Vehicles, equipment and other	110,820	49,724	61,096	99,523	42,507	57,016
Royalty interest	6,831	5,905	926	6,831	5,005	1,826
Construction in progress	2,740	-	2,740	3,480	-	3,480
	$ 1,338,068	$ 327,592	$ 1,010,476	$ 1,285,741	$ 285,629	$ 1,000,112

The composite amortization rate was 3.57 percent during 2000 (3.56 percent during 1999).

6. LONG-TERM INVESTMENT

By Order-In-Council 735/1998 dated December 9, 1998, the Corporation received approval to proceed with an investment in Gas Sur S.A., a natural gas distribution company in Chile. To facilitate this investment, the Corporation created two wholly-owned Canadian subsidiaries and a Chilean limited partnership.

The Corporation, through SaskEnergy International Incorporated, the two Canadian subsidiaries and the Chilean limited partnership agreed to purchase a 15 percent ownership interest (452 shares) in Gas Sur S.A. for $4,800 thousand U.S.

By virtue of the Shareholders Agreement of Gas Sur S.A., the Corporation committed to make the investment through three equal advances of $1,600 thousand U.S. on January 14, 1999, July 30, 1999 and July 30, 2000. The Canadian dollar equivalent of the investment to date is $7,493 thousand.

In addition, the Corporation has entered into a Technical Advisors Agreement whereby the Corporation will provide technical consulting services to Gas Sur S.A. on a fee for service basis.

In conjunction with the investment, the Corporation has granted a guarantee for the specific purpose of underwriting the subscription payment obligation of the Chilean limited partnership. The guarantee is expressly limited to $5,000 thousand U.S.

7. DEFERRED CHARGES

Deferred charges include the following:

	2000	1999
	(thousands)	
Unamortized past service costs	$ 5,728	$ -
Unamortized debt costs	2,112	2,412
	$ 7,840	$ 2,412

8. LONG-TERM DEBT

	2000		1999	
Years to Maturity	Principal Outstanding (thousands)	Average Fixed Interest Rate (percent)	Principal Outstanding (thousands)	Average Fixed Interest Rate (percent)
Province of Saskatchewan				
1 - 5	$ 404,586	11.1	$ 303,391	12.0
6 - 10	228,563	8.1	329,758	8.2
16 - 30	133,971	7.7	100,000	8.0
	767,120		733,149	
Less sinking fund equity	54,444		46,133	
Less due within one year	50,000		-	
Due to Province of Saskatchewan	662,676		687,016	
Other	4,816	13.5	4,816	13.5
Total long-term debt	$ 667,492		$ 691,832	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required to pay annual installments equal to one percent of outstanding debt into sinking funds. These sinking funds are administered by the Province of Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 6.79 percent for 2000 (9.06 percent for 1999).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Short-term indebtedness

During 2000, the Corporation borrowed funds on a short-term basis from the Province of Saskatchewan's General Revenue Fund at an average interest rate of 5.2 percent.

There was no short-term indebtedness at December 31, 2000 (1999 - $38,800 thousand) that was due to the Province of Saskatchewan's General Revenue Fund.

d. Principal repayments

Principal repayments and sinking fund installments due in each of the next five years are as follows:

	2001	2002	2003	2004	2005
			(thousands)		
Principal	$ 50,000	$ -	$ 222,934	$ 30,457	$ 101,195
Sinking fund installments	4,869	4,869	2,640	2,640	1,890
	$ 54,869	$ 4,869	$ 225,574	$ 33,097	$ 103,085

e. Interest expense

Interest expense was as follows:

	2000	1999
	(thousands)	
Interest on long-term debt	$ 73,880	$ 72,265
Interest on bank indebtedness	(1,022)	382
Interest capitalized	(2,787)	(1,856)
Sinking fund earnings	(3,441)	(3,880)
	$ 66,630	$ 66,911

Cash interest paid during 2000 on long-term debt was $73,103 thousand.

9. CUSTOMER CAPITAL CONTRIBUTIONS

Contributions are received from customers to aid in construction of customer specific facilities in accordance with established business policies.

	2000	1999
	(thousands)	
Balance, beginning of year	$ 85,509	$ 75,823
Contributions received	11,561	11,709
Contributions amortized	(2,354)	(2,023)
Balance, end of year	$ 94,716	$ 85,509

10. EQUITY ADVANCES

The Corporation does not have share capital. However, the Corporation has received advances from Crown Investments Corporation of Saskatchewan (CIC) to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

11. COMMITMENTS

FINANCIAL INSTRUMENTS

The Corporation engages in hedging activities through the use of financial derivatives. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which derivatives may be used by the Corporation. The Corporation utilizes a variety of off-balance sheet financial instruments to manage its exposure to interest rate, foreign exchange rate and natural gas price risk. These instruments are only used to hedge underlying assets, liabilities or anticipated future transactions.

a. Hedging transactions

The Corporation purchases natural gas for the purpose of resale. Approximately 68 percent (1999 – 68 percent) of annual purchases are made under long-term contracts with natural gas suppliers. These contracts are subject to annual price renegotiation. Prices may be fixed for a one-year period or referenced to a floating index price. In order to manage price volatility, hedges are used to fix gas prices with respect to underlying physical gas supply contracts. Natural gas purchase prices are hedged by using financial instruments.

As at December 31, the Corporation has entered into natural gas price swap contracts with counterparties to effectively manage an annually predetermined portion of its forecast system gas supply. The Corporation's hedging tools also include option and basis contracts with counterparties and futures contracts traded on the New York Mercantile Exchange. For those hedges denominated in United States dollars, the Corporation hedges against its foreign exchange risk through the use of Forward Contracts.

Amounts received or paid resulting from settlement of gas price hedging transactions are recognized as a component of the cost of gas sold.

The Corporation is exposed to possible credit losses in the event of non-performance by counterparties to natural gas price swap and option contracts. The Corporation mitigates this credit risk by:

i. utilizing only counterparties with an A credit rating or better for at least 75 percent of notional volumes purchased and Baa rated counterparties to hedge up to 25 percent of gas purchase volumes provided such hedges do not extend beyond 9 months from the transaction date; and
ii. limiting the notional gas volumes hedged to a maximum of 25 percent with any one counterparty.

During 2000, the Corporation entered into transactions with 12 different counterparties. The Corporation expects all swap and option obligations to be met.

The Corporation has entered into a number of forward start interest rate swaps to hedge its exposure to interest rate repricing on debt maturing between 2001 and 2003. The weighted average interest rate on these swaps is 6.76 percent on a notional principal of $130 million. The interest rate on this debt was 12.25 percent in 2000 (12.25 percent - 1999).

The Corporation is planning a divestiture of natural gas from a non-operational storage facility and has entered into forward sales agreements over a three-year period totaling $54.9 million.

b. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term debt	$ 771,936	$ 852,872	$ 737,965	$ 812,619
Sinking fund equity	54,443	56,402	46,133	45,780
Natural gas price hedges:				
- swaps	-	89,385	-	(6,606)
- options	7	39,099	(1,433)	1,087
- futures	-	-	(1,025)	(53)
Foreign exchange - forward contracts	-	-	-	(1,045)
Interest rate hedges - delayed swaps	-	(8,200)	-	500

The fair values of the above instruments were based on the following:

i. Long-term debt - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.
ii. Sinking fund equity - The market value of the investments held in the sinking fund as at December 31, 2000.
iii. Natural gas price swaps - The relevant index price in effect on December 31, 2000.
iv. Natural gas price options - The relevant index price in effect on December 31, 2000.
v. Natural gas futures contracts - The closing quotation from the New York Mercantile Exchange on December 31, 2000.
vi. Foreign exchange forward contracts - The Bank of Canada exchange rate on December 31, 2000.
vii. Interest rate hedges - Closing quotations from the counterparty as to the amount to settle the contract on December 31, 2000.

The carrying values of other financial instruments (cash, accounts receivable, accounts payable, short-term indebtedness and bank indebtedness) approximate fair value.

c. Credit risk

The Corporation provides credit to its customers in the normal course of business. The Corporation has over 320,000 customers and does not have a significant credit exposure to any individual customer. For 2000, credit losses were one fifth of one percent of total revenue.

• **LEASES**

The Corporation leases natural gas storage facilities near Regina, Saskatchewan. The annual base lease payments are as follows:

2001	2002	2003	2004	2005	Thereafter	Total
			(thousands)			
$495	$542	$556	$570	$584	$3,480	$6,227

12. NET SALES FROM GAS BROKERING

Net sales from gas brokering include the following:	2000	1999
	(thousands)	
Competitive gas sales	$ 227,421	$ 143,801
Cost of gas	209,912	130,971
Margin	$ 17,509	$ 12,830

13. SASKATCHEWAN TAXES AND ROYALTIES

Saskatchewan taxes and royalties include the following:	2000	1999
	(thousands)	
Payments to municipalities	$ 18,125	$ 14,225
Royalties	4,700	2,759
Corporate Capital Tax	4,541	4,673
Mitigation payments and property taxes	816	825
	$ 28,182	$ 22,482

The above amounts do not include Saskatchewan Education and Health Tax payments.

14. NET CHANGE IN NON-CASH WORKING CAPITAL

	2000	1999
	(thousands)	
Accounts receivable	$ (73,462)	$ 2,921
Accounts payable	77,284	(4,567)
Gas cost variance account	(18,526)	(7,542)
Natural gas in storage - current	12,253	(5,530)
Inventories of supplies	1,346	(910)
	$ (1,105)	$ (15,628)

15. RELATED PARTY TRANSACTIONS

Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year, and amounts outstanding at year end, are as follows:

	2000	1999
	(thousands)	
Accounts receivable	$ 1,882	$ 3,336
Accounts payable	973	1,440
Revenue	26,095	25,694
Operating expenses	24,662	23,306
Customer capital contributions	2,625	2,748

In addition, the Corporation pays Saskatchewan Education and Health Tax, to the Province of Saskatchewan's Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

16. PENSION PLANS

Substantially all employees of the corporations included in these consolidated financial statements are members of either a defined contribution or a defined benefit pension plan.

In accordance with the terms of the defined contribution plan (Public Employees' Pension Plan) and the defined benefit pension plan (Power Corporation Superannuation Plan), the Corporation's obligations are limited to making regular payments to the plans to match contributions made by the employees for current services. During the year, the corporation contributed $2,334 thousand (1999 - $2,230 thousand) on behalf of employees for current services.

17. SUPPLEMENTAL FINANCIAL INFORMATION

The Corporation operates predominantly in two industry segments being natural gas distribution and natural gas transportation. The following table provides supplemental information relating to the 2000 and 1999 operating results for each major category of business.

	Transportation		Distribution		Subsidiaries	
	2000	1999	2000	1999	2000	1999
			(thousands)			
REVENUE						
Distribution	$ -	$ -	$ 425,525	$ 325,929	$ 17	$ -
Cost of gas sold	-	-	279,669	192,094	-	-
Distribution margin	-	-	145,856	133,835	17	-
Transportation and storage	133,399	140,108	-	-	4,194	3,843
Net sales from gas brokering	15,410	7,280	(263)	2,648	-	-
Other	4,808	-	-	-	4,248	3,020
Net revenue	153,617	147,388	145,593	136,483	8,459	6,863
EXPENSES						
Operating and maintenance	45,685	44,928	74,264	70,515	1,925	1,715
Interest	39,228	40,481	26,434	25,236	1,011	1,024
Amortization of capital assets	22,855	22,321	22,715	21,530	1,442	1,486
Saskatchewan taxes and royalties	12,026	8,638	15,665	13,374	492	470
Total expenses	119,794	116,368	139,078	130,655	4,870	4,695
Net earnings	$ 33,823	$ 31,020	$ 6,515	$ 5,828	$ 3,589	$ 2,168

The above amounts are before intercompany eliminations.

Cost of gas sold noted above does not include intercompany transportation and storage of $1,795 thousand. This amount was eliminated on consolidation.

Below is a summarized statement of financial position by business unit:

	Transportation		Distribution		Subsidiaries	
	2000	1999	2000	1999	2000	1999
			(thousands)			
ASSETS						
Current	$ 69,075	$ 38,285	$ 140,153	$ 129,159	$ 4,200	$ 1,795
Natural gas in storage	32,235	38,781	-	-	14	-
Capital assets and investment	542,307	549,462	455,488	439,149	31,316	21,131
Total assets	$ 643,617	$ 626,528	$ 595,641	$ 568,308	$ 35,530	$ 22,926
LIABILITIES AND PROVINCE'S EQUITY						
Current	$ 57,336	$ 23,932	$ 129,030	$ 113,819	$ 12,969	$ 6,237
Customer capital contributions	29,722	27,703	63,364	59,645	4,564	-
Long-term debt	366,269	399,822	214,989	284,365	6,688	7,644
Equity	190,290	175,071	188,258	110,479	11,309	9,045
Total liabilities and equity	$ 643,617	$ 626,528	$ 595,641	$ 568,308	$ 35,530	$ 22,926

The above amounts are before intercompany eliminations.

The above noted columns of "Subsidiaries" combines the amounts for Many Islands Pipe Lines (Canada) Limited, SaskEnergy International Incorporated and Bayhurst Gas Limited and Swan Valley Gas Corporation.

18. SASKATCHEWAN RATE REVIEW PANEL

During 2000, The Saskatchewan Rate Review Panel was established by Minister's Order. The Panel was established to conduct a review of the Corporation's request for an increase in rates charged for natural gas commodity sales and delivery service. The review of proposed rate changes considers the interests of the consumer, the Corporation and the public. SaskEnergy applied for commodity and delivery rate increases to be effective November 1, 2000.

The Panel reviewed SaskEnergy's rate application and recommended that the natural gas commodity rate be increased effective December 1, 2000 and that the rate for delivery service not be increased.

The Saskatchewan Cabinet approved a rate change as recommended by the Panel.

19. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

FIVE-YEAR OPERATING SUMMARY - DISTRIBUTION UTILITY

	2000	1999	1998	1997	1996
Sales in million cubic metres (10^6m^3)	3,050	2,899	3,293†	3,325	3,259
Residential annual average usage (cubic metres)	3,497	3,316	3,255	3,504	4,328
Degree days+	5,864	5,343	5,338	5,665	6,761
Customers at year end*	320,340	317,219	313,425	309,171	304,575
Pipelines - in kilometres (km)	64,814	64,169	63,063	61,831	60,746

+ A unit measuring the extent to which the temperature falls below 18° Celsius. (In a normal year the degree days are 5,806).

* Number of Active Services.

† Retail and brokerage and contract industrial.

FIVE-YEAR OPERATING SUMMARY - TRANSMISSION BUSINESS

	2000	1999	1998	1997	1996
Pipelines (kilometres)					
TransGas					
Transmission	13,067	13,033	12,935	12,857	12,806
Gathering	286	286	286	421	421
Many Islands Pipe Lines (Canada) Ltd. (MIP(C)L)	434	414	414	414	414
Swan Valley Gas Corporation (SVGC)	50	0	0	0	0
	13,837	13,733	13,635	13,692	13,641
Compressor Stations					
TransGas	22	22	22	22	22
MIP(C)L	1	1	1	1	1
	23	23	23	23	23
Compression Horsepower					
TransGas	100,375	100,375	100,375	100,375	100,375
MIP(C)L	4,000	4,000	4,000	4,000	4,000
	104,375	104,375	104,375	104,375	104,375
Peak Day Gas flows (Winter Season)					
Billion Cubic Feet	1.31	1.23	1.32	1.36	1.46
Date	Dec. 11	Dec. 19	Jan. 12	Jan. 9	Feb. 1
Cavern Sites	7	7	7	7	7
Caverns	24	24	24	24	24
Field Sites	3	3	3	3	4

Corporate Governance

A. Authority

SaskEnergy is a statutory Crown corporation which is governed by *The SaskEnergy Act* and *The SaskEnergy Regulations*. The Board of Directors oversees the management of the Corporation and holds management accountable for the Corporation's performance. Through the Chair, the Board of Directors is accountable to the Minister Responsible for SaskEnergy, who functions as a link between the Corporation and Cabinet, as well as the Provincial Legislature.

B. Board Responsibilities

The Board is responsible for the stewardship of the Corporation. In carrying out this responsibility, the Board participates in the Corporation's strategic planning process each year and approves the strategic direction and corporate plan. The Board also exercises its responsibility to oversee and ensure adherence to *The SaskEnergy Act*. The Board met seven times during fiscal 2000.

C. Board Composition

SaskEnergy's Board of Directors is representative of the Saskatchewan community and industry. The Lieutenant Governor in Council, pursuant to *The SaskEnergy Act*, appoints Board members. Members possess a variety of significant attributes, including industry expertise, strategic leadership, entrepreneurial and communication skills, integrity, flexibility, sound judgment and initiative. Board members are committed to serving the Corporation, and in so doing, serving Saskatchewan people through emphasis on client service, productivity, profitability, cooperation and sound environmental stewardship.

D. Committees

The Board established the following four committees to assist in discharging specific areas of Board responsibility:

- Audit and Finance Committee
- Governance Committee
- Human Resources/Compensation Committee
- Safety, Health and Environment Committee

• Audit and Finance Committee

Chairperson: Susan Milburn

The Audit and Finance Committee mandate is to assist the Board of Directors in meeting their responsibilities with respect to financial reporting, internal control and accountability. In addition, it ensures that the Board is provided with financial plans and proposals consistent with the Corporation's overall strategic plan and public policy objectives.

• Governance Committee

Chairperson: Tim Gitzel

The Governance Committee is responsible for the development and maintenance of SaskEnergy's corporate governance practices. Among other things, its duties include evaluating the performance of the Board and establishing appropriate board and board committee structure, composition and mandate.

• Human Resources/Compensation Committee

Chairperson: Michael Chorlton

The Human Resources/Compensation Committee mandate is to oversee SaskEnergy's human resource strategies, programs and practices to ensure that SaskEnergy is a corporate leader in the development and implementation of proactive human resource strategies.

• Safety, Health and Environment Committee

Chairperson: Florence Banda

The Safety, Health and Environment Committee mandate is to ensure the Corporation is proactively addressing safety, health and environmental issues and is in compliance with all statutory requirements.

E. Governance Practices

SaskEnergy's approach to corporate governance practices is substantially consistent with the guidelines set forth in the *Canadian Institute of Chartered Accountants (CICA) handbook – Guidance for Directors, Governance Processes for Control,* which were adopted by the Board of Governors of the Toronto Stock Exchange. These guidelines address the key areas of responsibility for effective corporate governance, including responsibility for stewardship of the Corporation, the Board's role in working with management and the functioning of the Board. SaskEnergy's corporate governance practices are benchmarked against the Toronto Stock Exchange (TSE) Guidelines in the following Governance Scorecard.

TSE CORPORATE GOVERNANCE COMMITTEE'S GUIDELINES	SASKENERGY'S CORPORATE GOVERNANCE PRACTICES	CONSISTENT WITH TSE GUIDELINES
1. The board should explicitly assume responsibility for the stewardship of the corporation, specifically for:		
(a) Adoption of a strategic planning process:	The Board of Directors has a formal mandate with responsibility to function as stewards of the Corporation One of the Board's principal duties is to provide leadership in setting the Corporation's long-range strategic direction and to approve the Corporation's overall strategic plan. The Corporation's comprehensive strategic planning process results in the annual review and approval by the Board of the Corporation's strategic plan, annual operating and capital budget and financial plan. In addition, the Board conducts an annual two-day comprehensive strategy session with Senior Management, at which the Board reviews and assesses the performance of the Corporation and its subsidiaries, reviews business plans, reviews short-term and long-term objectives for the Corporation, including discussing and approving strategies to meet these objectives.	Yes
(b) The identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks:	The Board identifies the principal risks of the Corporation on an annual basis and monitors the Corporation's risk management programs, in addition to overseeing the implementation of appropriate systems to manage those risks.	Yes
(c) Succession planning, including appointing, training and monitoring senior management:	The Human Resources/Compensation Committee of the Board annually reviews the adequacy of the Corporation's succession planning strategy, performance targets, and the performance evaluations of the Executive Officers of the Corporation, including the Executive training plan.	Yes
(d) A communications policy for the Corporation:	Although there is no formal written policy, SaskEnergy is committed to the principles of transparency, openness and timeliness in communications with its shareholder, employees, stakeholders and the public.	Yes

TSE CORPORATE GOVERNANCE COMMITTEE'S GUIDELINES	SASKENERGY'S CORPORATE GOVERNANCE PRACTICES	CONSISTENT WITH TSE GUIDELINES
(e) The integrity of the corporation's internal control and management information systems:	The Audit and Finance Committee is responsible for the financial reporting, internal control and accountability of the Corporation. This Committee reviews the integrity of the internal controls and financial management information systems in conjunction with the internal and external auditors.	Yes
2. The board of directors of every corporation should be constituted with a majority of individuals who qualify as unrelated directors (i.e. one who is independent of management and is free from any interest in any business or other relationship which could, or could reasonably be perceived to, materially interfere with the directors' ability to act with a view to the best interest of the corporation, other than interests and relationships arising from shareholding):	There are nine individuals on the SaskEnergy Board of Directors. Ronald S. Clark, President and CEO, and Tom Ryberg, Assistant to the President of CEP Union, Local 649, are the only related Board members.	Yes
3. Disclosure of significant shareholders (ability to exercise a majority of votes to elect directors):	SaskEnergy is a statutory Crown corporation and does not have any share capital.	Not applicable
4. The board is required to disclose on an annual basis the analysis of the application of the principles supporting the conclusion of whether the director is related or an unrelated director:	Frank W. Proto, Chair: UNRELATED - Independent Industry Business Person Susan Milburn, Vice Chair: UNRELATED - Vice President and Associate Portfolio Manager of Goepel McDermid Securities Florence Banda: UNRELATED - Independent Business Person	Yes

TSE CORPORATE GOVERNANCE COMMITTEE'S GUIDELINES	SASKENERGY'S CORPORATE GOVERNANCE PRACTICES	CONSISTENT WITH TSE GUIDELINES
	Michael W. Chorlton: UNRELATED - Vice President, Renessen LLC, Chicago, Illinois Ronald S. Clark: RELATED - President and Chief Executive Officer of SaskEnergy Tim Gitzel: UNRELATED - Senior Vice President and Corporate Counsel, COGEMA Resources George E. Lafond: UNRELATED - Tribal Chief Tom Ryberg: RELATED - Assistant to the President of CEP Union, Local 649 (company employee on leave for Union business) Mervyn J. Simon: UNRELATED - Independent Industry Business Person For the unrelated directors, none of them, or their "associates" have worked with or for the Corporation by material contracts or has received remuneration from the Corporation in excess of fees and compensation as Directors and Committee members or as Directors of subsidiaries of the Corporation.	
5. The board of directors of every corporation should appoint a committee of directors composed exclusively of outside directors, ie. non-management, the majority of whom are unrelated directors, with responsibility to proposing to the full board new nominees to the board and for assessing directors on an on-going basis:	The Governance Committee has responsibility to make recommendations to the Board on the size, composition and required qualifications of the Board of Directors. All of the Governance Committee members are outside, unrelated directors.	Yes

TSE CORPORATE GOVERNANCE COMMITTEE'S GUIDELINES	SASKENERGY'S CORPORATE GOVERNANCE PRACTICES	CONSISTENT WITH TSE GUIDELINES
6. Every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee, for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors:	The Corporate Governance Committee annually reviews the performance of the Committees of the Board. Reviews of individual Directors' contributions are performed by a self-assessment tool which is submitted to the Committee Chair.	Yes
7. Every corporation, as an integral element of the process for appointing new directors, should provide an orientation and education program for new recruits to the board:	The SaskEnergy Board has approved a Board of Directors Training Policy which outlines the Corporation's commitment to the orientation and training of its incoming Board members and the ongoing training and industry education for current Board members. This policy outlines the comprehensive orientation material to be provided to incoming Board members. As part of the ongoing training for Board members, Crown Investments Corporation of Saskatchewan and the Corporation have each facilitated additional training sessions for Board members in 2000.	Yes
8. Every board of directors should examine its size and, with a view to determining the impact of the number upon effectiveness, undertake where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making:	SaskEnergy's present Board size of nine members brings the necessary skills and experience to Board decision making to form an effective decision-making body. SaskEnergy's Governance Committee is responsible for annually assessing the size, composition and required qualifications of the Board to determine whether it has all the necessary constituents for effective decision-making.	Yes

TSE CORPORATE GOVERNANCE COMMITTEE'S GUIDELINES	SASKENERGY'S CORPORATE GOVERNANCE PRACTICES	CONSISTENT WITH TSE GUIDELINES
9. The board of directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities and risk involved in being an effective director:	The Human Resources/Compensation Committee is responsible for annually reviewing the compensation for the Board members and the Chair, and recommending to Crown Investments Corporation for approval any proposed adjustments to compensation levels. Crown Investments Corporation of Saskatchewan is mandated by legislation to fix the remuneration and rate of reimbursement for expenses of directors.	Yes
10. (a) A committee should be generally composed of non-management directors:	Committees are comprised solely of non-management members, except Human Resources/Compensation Committee and the Safety, Health and Environment Committee, where Tom Ryberg, a unionized employee on leave from the Corporation, is a member.	Yes
(b) The majority of committee members should be unrelated:	The majority of Committee members are unrelated.	Yes
11. Every board of directors should expressly assume responsibility for or assign to a committee of directors the general responsibility for developing the corporation's approach to governance issues. This committee would, amongst other things, be responsible for the corporation's response to these governance guidelines:	The Governance Committee is mandated to be responsible to the Board for governance of SaskEnergy, including issues related to governance, and conflict of interest involving Directors and Senior Executives. The Governance Committee has reviewed and approved this report.	Yes
12. (a) The board of directors, together with the CEO, should develop position descriptions for the board and for the CEO involving the definition of the limits to management's responsibilities:	The Board of Directors has developed the Board's Terms of Reference which sets the Board's and management's responsibilities. The Board of Directors has approved policies for the execution of documents and expenditure authorities for the CEO and Senior Management. These policies outline the limits to Senior Management's authorities and the levels for which matters must receive Board of Directors approval.	Partially. The CEO position description has not been completed.

TSE CORPORATE GOVERNANCE COMMITTEE'S GUIDELINES	SASKENERGY'S CORPORATE GOVERNANCE PRACTICES	CONSISTENT WITH TSE GUIDELINES
(b) The board should approve or develop the corporation's objectives which the CEO is responsible for meeting:	The Human Resources/Compensation Committee annually reviews with the CEO the performance targets and performance evaluation of the CEO and the Executive Officers.	Yes
13. Every board of directors should have in place appropriate structures and procedures to ensure that the board can function independently of management:	The Board structure at SaskEnergy is such that the Chair of the Board is unrelated. The Board meeting procedures are such that at each meeting the Board conducts an in-camera session whereby Management, including the President and CEO, are excused from the meeting.	Yes
14. The audit committee of every board of directors should be composed only of outside directors. The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to committee members as to their duties. The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues, as appropriate. The audit committee's duties should include oversight responsibility for management reporting on internal control. It is the responsibility of the audit committee to ensure that management has designed and implemented an effective system of internal control:	All members of the SaskEnergy Audit and Finance Committee are outside Directors. SaskEnergy's Audit and Finance Committee has a mandate to: • Review with Management and external auditor, and recommend to the Board for approval, the Annual Audited Financial Statements of the Corporation and its wholly-owned subsidiaries. • Review and recommend for approval of the Board the Management discussion and analysis section of the Annual Report, as well as any other disclosure documents containing financial statements of the Corporation. • Review the semi-annual financial statements. • Review annually the results of the external auditors review of the Corporation's financial record. • Review the results of the reports of the internal and external auditor with respect to the state of the Corporation's internal control systems. • Review the quality of service and the performance of the external auditor and recommend the appointment or reappointment of an external auditor. • Review and approve the plans of the Corporation's internal auditor. • Review financial forecasts and changes to the annual depreciation rates, major investments or divestitures and the insurable risks and insurance coverage of the Corporation.	Yes

TSE CORPORATE GOVERNANCE COMMITTEE'S GUIDELINES	SASKENERGY'S CORPORATE GOVERNANCE PRACTICES	CONSISTENT WITH TSE GUIDELINES
	• Review annually the efficacy of the Corporation's policies relating to execution of documents, derivatives, and expenditure. • Review annually the objectives, goals and basic principles in use of financial derivatives to manage interest rates, gas price and foreign currency risk. • Review quarterly the performance and execution of the gas price hedging strategy, corporate debt strategy and foreign exchange hedging strategy as contained in the Corporate Derivatives Policy. • Review annually the borrowing and new venture financing of the Corporation.	
15. The board of directors should implement a system which enables an individual director to engage an outside advisor at the expense of the corporation in appropriate circumstances. The engagement of an outside advisor should be subject to the approval of an appropriate committee of the board:	The Board or any Committee of the Board may obtain the advice and counsel of external advisors if, in the opinion of the Board or Committee, it is necessary in order to properly discharge their function, duties and responsibilities that such advisor be engaged.	Yes

Board of Directors

Back row L. to r.: Tom Ryberg, Mervyn Simon, Ron Clark, Frank Proto
Seated L. to r.: Florence Banda, George Lafond, Mike Chorlton, Tim Gitzel, Susan Milburn

Executive Committee

Ronald S. Clark, President & Chief Executive Officer
George Barnhart, Vice President, Strategic Development
Larry Braun, President, Communications, Energy & Paperworkers (CEP) Union, Local 649
David Easton, Vice President, SaskEnergy International
Ken From, Vice President, Gas Supply
Mark Guillet, General Counsel & Corporate Secretary
Robert Haynes, Vice President, Human Resources
Colleen Huber, Vice President, Information Systems
Doug Kelln, Vice President, Distribution Utility
Greg Mrazek, Vice President, Finance & Administration
Ron Podbielski, Executive Director, Corporate Affairs
Daryl Posehn, Vice President, TransGas
Dean Reeve, Vice President, Business Development & Market Services

Glossary of Terms

The following words and abbreviations appear in boldface throughout this Report:

Joule – a base unit of energy.

Gigajoule (GJ) – a metric measure of energy used to express the heating value of natural gas or of energy consumed. An average home uses about 130 Gigajoules per year.

Terajoule (TJ) – a unit of energy equivalent to 100,000 Gigajoules.

Petajoule (PJ) – a unit of energy equivalent to 1,000,000 Gigajoules.

m^3 (cubic metres) - a common unit of measurement used to express the amount of natural gas sold to consumers. The average home uses about 3,552 m^3 of gas per year.

MMcf/day (one million cubic feet per day) – term commonly used to express the volume of gas flowing through a transmission pipeline system.